Microsoft 2014 Citizenship Report

Microsoft

Letter From Our CEO

We are entering a world where there will soon be more than 3 billion people with Internet-connected devices — from a farmer in a remote part of the world with a smartphone to a professional power user with multiple devices powered by cloud-based apps spanning work and life. Our ambition for this world is simple yet bold. At our core, Microsoft is the productivity and platform company for the mobile-first, cloud-first world. We will reinvent productivity to empower every person and every organization on the planet to do more and achieve more.

Our customers and society expect us to maximize the value of technology while also preserving the values that are timeless. Microsoft's commitments to corporate citizenship help us meet these expectations.

In fiscal year (FY) 2014, we expanded our work to help nonprofits do more with technology and donated $948.6 million of software and hardware to more than 86,000 nonprofits around the globe. This includes the launch of Office 365 for Nonprofits, with $55 million worth of Office 365 subscriptions donated to 11,500 NGOs in 74 countries.

We advanced our three-year commitment to create opportunities for 300 million youth by 2015 under the Microsoft YouthSpark initiative. YouthSpark has created education, employment, and entrepreneurship opportunities for 227 million youth since launch, including 124 million in FY14.

This year we also faced new challenges and took bold steps forward to meet our longstanding commitment to ensuring the privacy and security of our customers' data. This included expanding our use of encryption across our services, providing choice and transparency on data location, and strengthening legal protections for our customers' privacy. We led the way in advocating for reform of government surveillance practices. Going forward, we are committed to using data to create intelligent, personal experiences that help our customers do more while maintaining the security and privacy of their data.

We continue to implement an industry-leading carbon neutrality program and expand our investments in renewable energy to power our cloud services. In FY14, we purchased more than 3 billion kilowatt-hours of green power, equal to 100 percent of our global electricity use.

In FY14, we made marked progress against our citizenship commitments and I am energized and optimistic about our ongoing work in these areas. I am committed to advancing our citizenship commitments as we move forward with intensity to once again change the world.

Sincerely,

Satya Nadella
Chief Executive Officer

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Ethical Business Conduct and Governance

More than 99 percent of Microsoft employees completed annual training on our Standards of Business Conduct, which is available globally in 17 languages.

The Board of Directors appointed an independent Chairman, John Thompson, coincident with Satya Nadella's appointment as Chief Executive Officer.

Our People

Eighty-six percent of employees polled said they would recommend Microsoft as a great place to work.

The percentage of women in our global workforce grew from 24 to 28 percent and the percentage of Microsoft senior executive women and minorities increased from 22 to 27 percent.

Serving Communities

Microsoft's total annual giving surpassed $1 billion for the first time, with cash donations of $119 million and in-kind donations worth $948.6 million.

The Microsoft YouthSpark Initiative is on track to surpass our goal of creating opportunities for 300 million youth over three years, having created opportunities for 227 million youth to date, including 124 million in FY14.

We launched Office 365 for Nonprofits in 92 countries around the world, providing $55 million worth of Office 365 subscriptions to nearly 11,500 nonprofits globally.

Human Rights

We instituted new privacy and data security measures including expanding our use of encryption across our services, providing choice and transparency on data location, and strengthening legal protections for customers. We fought for and won the right to increase our disclosure on the volume of national security orders for customer data that we receive from the US government.

Microsoft completed the Global Network Initiative (GNI) Phase III Assessment, conducted by an independent assessor, and the GNI Board determined that Microsoft is compliant with the GNI Principles on Freedom of Expression and Privacy.

Responsible Sourcing

In FY14, we completed 217 third-party audits and Microsoft assessments of 131 Tier 1 and high- and medium-risk Tier 2 hardware suppliers. Critical/serious nonconformance findings are detailed in this report. In all of these instances, the suppliers instituted corrective action plans that were approved by Microsoft, and follow-up audits confirmed that the suppliers were implementing the corrective action plans.

We also expanded our work with our hardware suppliers to build their capabilities on environmental health and safety management and to improve factory workers' living environments.

Microsoft began to screen our non-hardware suppliers against 23 different ethical, social, and environmental risks by country and by commodity category and to roll out new assurance requirements for the suppliers found to pose the highest risks.

Environmental Sustainability

We met our carbon neutrality commitment through internal efficiency projects, the purchase of more than 3 billion kilowatt hours (kWh) of renewable energy (equal to 100 percent of our global electricity use), and a carbon offset project portfolio representing more than 600,000 metric tons of carbon dioxide (CO_2) emissions.

We achieved our goal that all new datacenters have an average 1.125 Power Usage Effectiveness (PUE), which is one-third less than the industry average datacenter PUE of 1.7.

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1.1 Our Business

Microsoft was founded in 1975. Our mission is to enable people and organizations throughout the world to do more and achieve more by creating technology that transforms the way people learn, work, play, and communicate. We develop and market software, services, and devices that deliver new opportunities, greater convenience, and enhanced value to people's lives.
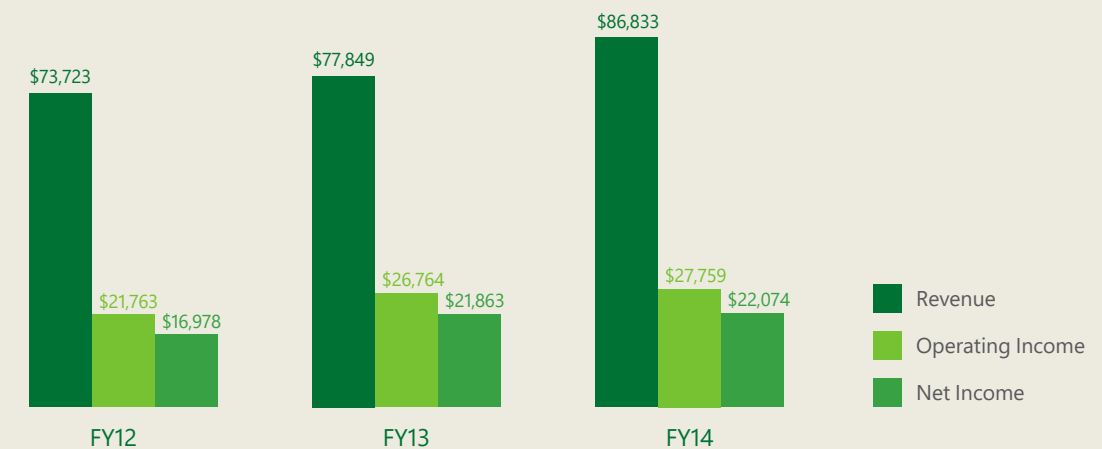
We do business worldwide and have offices in more than 100 countries. As of June 30, 2014, we employed approximately 128,000 people on a full-time basis, 62,000 in the United States and 66,000 internationally. Detailed, updated information about Microsoft's business, operations, and workforce is **available here**.

We generate revenue by developing, licensing, and supporting a wide range of software products and services, by designing, manufacturing, and selling devices, and by delivering relevant online advertising to a global customer audience. In addition to selling individual products and services, we offer suites of products and services. Our products include operating systems for computing devices, servers, phones, and other intelligent devices; server applications for distributed computing environments; productivity applications; business solution applications;

desktop and server management tools; software development tools; video games; and online advertising. We also design and sell hardware including PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories.

We offer cloud-based solutions that provide customers with software, services, and content over the Internet by way of shared computing resources located in centralized datacenters. Examples of cloud-based computing services we offer include Bing, Microsoft Azure, Microsoft Dynamics CRM Online, Office 365, OneDrive, Skype, Xbox Live, and Yammer. Cloud revenue is earned primarily from usage fees, advertising, and subscriptions. We also provide consulting and product and solution support services, and we train and certify computer system integrators and developers.

Select Financial Results (in millions)

	FY12	FY13	FY14
Revenue	$73,723	$77,849	$86,833
Operating Income	$21,763	$26,764	$27,759
Net Income	$16,978	$21,863	$22,074

We conduct research and develop advanced technologies for future software, devices, and services. During FY14, our research and development expense was $11.4 billion, 13 percent of our revenue. While our main research and development facilities are located in Redmond, Washington, we also operate research and development facilities in other parts of the United States and around the world, including Canada, China, Denmark, Estonia, Finland, India, Ireland, Israel, Norway, Sweden, Taiwan, and the United Kingdom. This global approach helps us remain

competitive in local markets and enables us to continue to attract top talent from across the world. In addition to our main research and development operations, we also operate Microsoft Research. Microsoft Research is one of the world's largest computer science research organizations and works in close collaboration with top universities around the world to advance the state-of-the-art in computer science, providing us a unique perspective on future technology trends and contributing to our product and service innovation.

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1.2 Citizenship Governance

Microsoft's citizenship mission is to serve globally the needs of communities and fulfill our responsibilities to the public.

The Regulatory and Public Policy Committee of our Board of Directors assists the board in overseeing the company's policies and programs that relate to certain legal, regulatory, and compliance matters, business risks related to privacy and cybersecurity, and public policy and corporate citizenship, including public issues of significance to the company and its stakeholders that may affect the company's operations, performance, or reputation.

The committee's charter specifically calls for the committee to "review and provide guidance to the board and management about the company's policies and programs that relate to corporate citizenship, including human rights, environmental sustainability, corporate social responsibility, supply chain management, charitable giving, and political activities and expenditures."

Microsoft's Citizenship and Public Affairs team sits within our Legal and Corporate Affairs Group and drives initiatives and engages with groups across Microsoft to help the company fulfill its responsibilities as a global corporate citizen and deliver added value to the company and its stakeholders. This team of 30+ professionals develops our global citizenship strategies and works in partnership with local Microsoft citizenship and corporate affairs professionals around the world to advance our citizenship commitments wherever we do business. The General Manager of Citizenship and Public Affairs reports directly to Microsoft's Executive Vice President and General Counsel, who sits on CEO Satya Nadella's Senior Leadership Team.

More broadly, citizenship at Microsoft relies on the combined efforts of all our employees, including colleagues in dozens of other leadership roles, business and operational groups, and global subsidiaries. Together, they help identify emerging issues and societal challenges where Microsoft can add the greatest value, develop and implement new strategies and programs, and monitor our progress.

Stakeholder Engagement

We regularly communicate with thousands of stakeholders globally ranging from parents concerned about their child's online safety to international human rights experts. These engagements take many forms. Employees from our business and operational groups regularly identify and engage with stakeholders in the course of their daily work activities. Our Citizenship and Public Affairs team also manages a number of stakeholder relationships and ongoing dialogues to help inform and guide our strategies. We connect with leading thinkers on corporate responsibility and societal challenges in groups such as Business for Social Responsibility, the Clinton Global Initiative, and the World Economic Forum. We learn from them and other advocacy groups, socially responsible investors, corporate responsibility rating agencies, other external stakeholders, and our own employees to identify new and emerging citizenship issues. We also base our work on international frameworks such as the United Nations Global Compact, the UN Guiding Principles on Business and Human Rights, and the Global Reporting Initiatives' Sustainability Reporting Guidelines.

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1.2 Citizenship Governance

Stakeholder Engagement Overview

Stakeholder Groups	Examples of Engagement	Selected Results
Customers	We gain insights from online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers, and our customer service representatives.	Customer feedback and insights underlie all of our decisions to enhance existing products and develop new ones. Customer feedback also plays an important role in helping us develop clearer and more customer friendly contracts and terms of use policies.
Investors	Beyond traditional investor communications such as earnings calls and our annual meeting, we seek to proactively provide investors with corporate governance information through diverse communications, including a director video interview series and direct communications from independent members of our board to shareholders. Twice a year, we proactively reach out to institutional investors – including public pension funds and socially responsible investors – about governance and citizenship-related topics and deliver a summary of their feedback to the board. In FY14, these engagements reached investors holding over 30 percent of our outstanding shares. We seek to transparently provide information sought by socially responsible investors and corporate responsibility rating agencies and seek their insights to identify new and emerging citizenship issues.	Our engagement with investors has influenced many important parts of our citizenship strategy, such as our human rights commitments under the Global Network Initiative, a collaborative effort between information and communications technology (ICT) companies, human rights groups, socially responsible investors, and others. Investors are an important influence as we continue to consider ways to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.

Stakeholder Groups	Examples of Engagement	Selected Results
Employees	We ask for – and act on – employee feedback in multiple ways, including conducting an annual online anonymous poll of all our employees around the world. The poll, with a nearly 90 percent response rate, asks employees to share feedback about the Microsoft work experience, including how they feel about their workgroups, organization, and company as a whole. Microsoft offers employees, customers, suppliers, and other external parties multiple ways to report compliance concerns as described in our Ethical Business Conduct and Governance chapter.	Microsoft's Senior Leadership Team and individual managers use the poll results to further improve on areas of strength and address opportunities for improvement.
Suppliers	We engage with suppliers through capacity-building workshops and trainings, supplier advisory boards, and industry coalitions, such as the Electronics Industry Citizenship Coalition. We also conduct anonymous Voice of the Supplier Surveys, which include questions on citizenship issues.	Our work to address environmental and social issues in collaboration with our suppliers is detailed in the Responsible Sourcing chapter.
Policymakers	Microsoft engages actively in policy issues relevant to our business, both directly and through industry associations. We seek to ensure that our participation in the political process takes place in the light of day and for reasons that are clear and justifiable to our shareholders and the public. Our public policy engagement is guided by a publicly available Global Public Policy Agenda, which outlines our policy positions on issues core to our business.	Microsoft is recognized as a leader for policies that help to ensure the accountability and transparency of our engagement in the public policy process.

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Stakeholder Engagement Overview

Stakeholder Groups	Examples of Engagement	Selected Results
Communities	Microsoft's local citizenship teams work directly with community groups and in partnerships with local non-profits. They share views and insights from local communities with Microsoft's global Citizenship and Public Affairs team in direct communications, through regular conference calls, and at an annual global summit.	Microsoft's YouthSpark Initiative and Office 365 for Nonprofits program were both strongly shaped by input from local communities about the best way to serve economic and social needs in their area.
Industry coalitions and public-private partnerships	Microsoft actively participates in industry coalitions to address important citizenship issues and in many cases is among the leaders bringing companies together to work collaboratively to solve challenges.	Microsoft has helped establish groups that help set the standard for responsible business practices in the ICT industry ranging from the Electronics Industry Citizenship Coalition and Global Network Initiative to the International Association of Accessibility Professionals.
Civil society/ nongovernmental organizations (NGOs)	Across the breadth of our business, we engage with thousands of NGOs working on issues ranging from environmental sustainability to employee diversity to child safety.	Virtually all of the initiatives described throughout this Citizenship Report have benefitted from insights provided by NGOs and in many cases involve active ongoing partnerships with them.

Identification and Assessment of Reporting Topics

The topics covered in this report reflect input from our stakeholder engagement activities and take into consideration:

- Customer, investor, and analyst inquiries and feedback;

- Employee inquiries and interest;

- Regulatory and policy trends;

- Surveys of internal and external stakeholders;

- Reporting guidance such as the Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), and UN Guiding Principles on Business and Human Rights;

- Industry benchmarks;

- Input from corporate responsibility experts such as Business for Social Responsibility;

- Media coverage; and

- Stakeholder feedback on previous reports.

We welcome your feedback about the issues you as a reader would like to see addressed in the future. Please e-mail your comments to **mcitizen@microsoft.com**.

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Ethical Business Conduct and Governance

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2.1 Our Approach

Trust is paramount to the success of any business. We recognize that this is increasingly true for Microsoft as we evolve our business in a cloud-first, mobile-first world. We work to build and maintain trust through a shared commitment to ethical behavior and by acting with integrity in everything we do.

Our commitments to ethical business practices and strong corporate governance policies are designed to promote the long-term interests of our shareholders, maintain internal checks and balances, promote accountability at all levels of our organization, and foster responsible decision making. We are proud that because of our commitments and actions, we've been on the Ethisphere Institute's list of the World's Most Ethical Companies every year since they began issuing the list in 2011.

2.2 Commitment to Ethics and Standards of Business Conduct

Microsoft regularly interacts with customers, partners, competitors, shareholders, suppliers, representatives, regulatory agencies, and government officials. We are committed to engaging all of these groups in a respectful, ethical manner and in compliance with all legal requirements.

Microsoft provides employees with a wide range of both mandatory and optional training and guidance to ensure awareness of our policies and expectations for ethical behavior. The graphic on the following page from the Microsoft Standards of Business Conduct reflects our straightforward approach and encourages employees to consult with internal resources when necessary.

Microsoft's **Standards of Business Conduct** are the foundation of our commitment to ethical business practices and legal compliance. These standards are endorsed by the Microsoft Board of Directors and apply to all employees, directors, and executive officers of Microsoft and its subsidiaries and controlled affiliates (Microsoft directly or indirectly owns more than 50 percent of the voting control).

In FY14, we expanded Microsoft's Standards of Business Conduct by adding new standards related to human rights and environmental sustainability.

All Microsoft employees must complete annual training on our Standards of Business Conduct. The training course is available in 17 languages. In FY14, as in previous years, we achieved a completion rate for the course of greater than 99 percent. In addition, a variety of mandatory role-specific trainings address the compliance risks of particular business functions.

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2.2 Commitment to Ethics and Standards of Business Conduct

Business Conduct and Compliance Program

Across Microsoft's business, we build and monitor internal controls to identify and mitigate risks of unethical and non-compliant conduct, perform regular internal audits, require multiple levels of approval for contracting and expenditures, and maintain internal compliance scorecards that impact key leaders' performance compensation. Our responsibility is to take steps to train our employees, to build controls to prevent and detect unethical and non-compliant conduct and, when we identify or learn of concerns or improper conduct, to investigate them fully and take appropriate action to remediate.

Microsoft's Office of Legal Compliance is responsible for our Business Conduct and Compliance Program, working closely with the rest of Microsoft Legal and Corporate Affairs, Finance, Human Resources, Internal Audit, and other groups focused on ensuring compliance. Microsoft employs over 170 compliance professionals globally, including over 50 people

whose primary role is investigating potential breaches of company policy.

The leaders of the Office of Legal Compliance have direct access and reporting obligations to the Audit Committee of the Board of Directors.

Microsoft offers employees and external parties multiple ways to report compliance concerns. These include the following:

- Calling a toll-free telephone integrity hotline that is staffed 24 hours a day, 7 days a week by a third-party vendor (operators are available to receive calls in 49 languages);

- Submitting an online report through a publicly available website operated by the vendor (the landing page for the site is in 16 languages and the online reporting tool is in 49 languages);

- Emailing the Office of Legal Compliance directly at **buscond@microsoft.com**; and

- Emailing, calling, or faxing the Director of Compliance.

Example of Microsoft Guidance to Employees on Making Ethical Decisions

We expect you to be well informed and exercise good judgment when making business decisions for Microsoft. Before making a business decision, ask yourself the following questions:

Is it consistent with our core values and the Standards?

We expect you to think through the issues and to use available resources to help, including our core values and the Standards.

Is it legal?

We are not expecting you to be a lawyer or legal expert. We do expect you to ask questions and seek guidance if you are not sure.

Am I comfortable with others finding out about my decision?

If you would not be comfortable sharing your decision with friends, family, and co-workers, it probably is not the right thing to do.

If you cannot answer "yes" or you are not sure, do not make the decision or take the action until you get additional help and guidance.

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2.2 Commitment to Ethics and Standards of Business Conduct

Preventing retaliation is critical to the Business Conduct and Compliance Program. Microsoft maintains and communicates an open-door policy and strictly prohibits retaliation against complainants who raise a compliance concern in good faith. Microsoft is committed to handling all inquiries discreetly and preserving the confidentiality of anyone requesting guidance or reporting a possible violation to the extent possible and within the limits allowed by the laws.

Anti-corruption

Microsoft's Standards of Business Conduct and **Anti-Corruption Policy for Representatives** include strong commitments to observing the standards of conduct set forth in the US Foreign Corrupt Practices Act and the applicable anti-corruption and anti-money laws of all the countries in which we operate. We prohibit corruption of government officials and the payment of bribes or kickbacks of any kind, whether in dealings with public officials or individuals in the private sector. We require partners to provide anti-corruption training to all employees who resell, distribute, or market Microsoft products

or services and provide them a free, online training course available in multiple languages. Microsoft's **Supplier Code of Conduct** also includes strong ethics and anti-corruption provisions, which are highlighted in an online **Supplier Code of Conduct Training** that suppliers must take. These are both available in 33 languages.

Beyond clearly communicating our expectations, Microsoft vets third-party representatives and certain suppliers to help ensure that we only engage those that are legitimate businesses with a reputation for integrity. We conducted a risk assessment to identify higher-risk representative types, which were then vetted along with many other lower-risk representative types. This includes channel partners, consultants, lobbyists, and other third parties engaged by Microsoft and its subsidiaries and joint ventures worldwide. In addition, we continue to have third-party reviews conducted for all new suppliers. Since the vetting program's inception, Microsoft has screened nearly 100,000 representatives and suppliers to enable Microsoft to monitor the risk profile and drive risk mitigation efforts accordingly.

2.3 Corporate Governance

Through oversight, review, and counsel, Microsoft's Board of Directors establishes and promotes Microsoft's business and organizational objectives. The board oversees the company's business affairs and integrity, works with management to determine the company's mission and long-term strategy, performs the annual CEO evaluation, oversees CEO succession planning, establishes internal control over financial reporting, and assesses company risks and strategies for risk mitigation.

The board routinely reviews evolving practices to determine those that will best serve the interests of our shareholders. Microsoft is a leader in adopting standards to increase accountability to our shareholders, including early adoption of majority voting for board directors and Say on Pay advisory votes on executive compensation. (Our corporate governance factsheet is **available here**.) We separated the Board Chair and CEO positions, and in FY14 our Lead Independent Director John Thompson assumed the role of independent Chairman of the Board. Bill Gates, formerly chairman, remains on the board and assumed a new role as Founder and Technology Advisor to devote time to supporting Mr. Nadella in shaping the technology and product direction of the company.

Microsoft's director independence guidelines meet or exceed the independence requirements of NASDAQ listing standards and US Securities and Exchange Commission rules.

Microsoft's Board of Directors maintains four standing committees to assist it in discharging its oversight responsibilities: an Audit Committee, a Compensation Committee, a Governance and Nominating Committee, and a Regulatory and Public Policy Committee. Only independent directors serve on these committees. Each committee has duties assigned by the board in compliance with Microsoft's Bylaws and a committee charter, which are each **available online**.

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(2.3) Corporate Governance

2.4 Public Policy Engagement

Among the duties spelled out in the Regulatory and Public Policy Committee's charter is to "Review and provide guidance to the Board and management about the Company's policies and programs that relate to corporate citizenship, including human rights, environmental sustainability, corporate social responsibility, supply chain management, charitable giving, and political activities and expenditures."

We seek to proactively provide investors with corporate governance information through diverse communications, including a director video interview series and direct communications from independent members of our board to shareholders. Twice a year, we proactively reach out to institutional investors—including public pension funds and socially responsible investors—about governance and citizenship-related topics and deliver a summary of their feedback to the board. In FY14, these engagements reached investors holding over 30 percent of our outstanding shares.

Corporate participation in the public policy process is an important and essential means of enhancing shareholder value and is fundamental to free and democratic societies. We seek to ensure our participation in the political process takes place in the light of day and for reasons that are clear and justifiable to our shareholders and the public. Our public policy engagement is guided by a publicly available **Global Public Policy Agenda**, which outlines our policy positions on issues core to our business.

Microsoft is recognized as a leader for policies that ensure the accountability and transparency of our engagement in the public policy process. During FY14, we received the second highest rating in the CPA-Zicklin Index of Corporate Political Accountability and Disclosure, which is compiled annually by the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research at the University of Pennsylvania Wharton School of Business.

Microsoft has adopted a specific set of Principles for Engagement in the Public Policy Process in the United States to address issues specific to the US political and fundraising system. We provide a **web page** with comprehensive

disclosure of these policies, disclosure of our US political expenditures and contributions, and information on our policy-related trade association memberships. To uphold our commitment to transparency of our political spending and contributions, we do not make corporate contributions to any non-candidate or non-party political committees organized under section 527 of the Internal Revenue Code, which are formed solely to influence elections. We also make no independent political expenditures or electioneering communications, as permitted under the US Supreme Court's Citizens United ruling, and we inform our trade associations that no Microsoft funds may pay for their independent expenditures or electioneering communications.

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2.5 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: **Maintaining or increasing dialogue between stakeholders and the company.**

As described above, we maintained our proactive engagement with shareholders, and as described throughout this report, we engaged a wide variety of other stakeholders.

Goal: **Engaging in cross-industry forums to help us identify and contribute to the development of best practices.**

As we do on an ongoing basis, we engaged with many organizations including serving as an industry partner in the World Economic Forum Partnering Against Corruption Initiative (PACI) and are members of TRACE International and the Center for Responsible Enterprise and Trade (CREATe.org). We also engage with the Conference Board Governance Center, the Council of Institutional Investors, and the Society of Corporate Secretaries and Governance Professionals, among other governance-focused organizations.

Goal: **Continuing to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.**

The board appointed an independent Chairman, John Thompson, coincident with Satya Nadella's appointment as Chief Executive Officer. The board remains focused on how the experience and skill set of each individual director complements those of their fellow directors to create a balanced board with diverse viewpoints, deep expertise, and a strong technology-specific knowledge base to lead our business into the future. Four independent directors joined the board in 2014: Mason Morfit, President of ValueAct Capital, John Stanton, a pioneer and innovator in the US and global wireless industry, Charles Scharf, CEO of Visa, and Teri List-Stoll, Chief Financial Officer of Kraft Foods Group.

Goal: **Implementing the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act.**

We had an active program for responsible sourcing of raw materials years before the Dodd-Frank Act's conflict minerals reporting requirements took effect. We have focused on our suppliers' ethical business practices, environmental compliance, and worker health and safety. Conflict minerals due diligence and reporting is an extension of these efforts, to ensure that certain raw materials incorporated in our hardware products do not help finance armed conflict and human rights abuses in the Democratic Republic of the Congo and adjoining countries. We filed our first Conflict Minerals Report in 2014 and we continue to advance this work.

FY15 Commitments

- Maintaining our commitments to ethical business practices, with steps to train our employees, to build controls to prevent and detect unethical and non-compliant conduct and, when we identify or learn of concerns or improper conduct, to investigate them fully and take appropriate actions to remediate.

- Maintaining or increase dialogue between stakeholders and the company.

- Engaging in cross-industry forums to help us identify and contribute to the development of best practices.

- Continuing to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.

- Monitoring and implementing the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act. (Note: We expect the Securities and Exchange Commission to continue to adopt regulations mandated by the Dodd-Frank Act. These include disclosure of pay ratios, pay for performance, hedging, and executive compensation recovery. We have previously implemented polices relating to hedging and executive compensation recovery and will monitor and implement any further requirements in these areas.)

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3.1 Our Approach

Microsoft provides a dynamic work environment that fosters collaboration and inclusion among our diverse and global workforce, which yields exceptional personal and professional growth for our employees.

Through Microsoft's Global Human Rights State-ment and as a signatory to the UN Global Compact, we're committed to respecting all of the human rights described in the Universal Declaration of Human Rights; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social, and Cultural Rights; and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.[1]

In addition, our commitments to communicate respectfully with each other, to provide for diver-sity and equal employment opportunity at all levels of our organization, and to protect the safety and health of our employees are incorporated into the Microsoft Standards of Business Conduct described in the **Ethical Business Conduct and Governance** chapter.

Microsoft's global Human Resources team advances our policies and programs to recruit, retain, and develop exceptional people. This team includes groups focused on compensation and benefits, talent and organizational capability, and diversity and inclusion. In addition to a central team, HR professionals are embedded within each group in Microsoft to ensure that every employee has a clear point of contact and support on HR issues, from our executive managers to individual contributors.

1　Those ILO principles are freedom of association and the effective recognition of the right to collective bargaining; elimination of all forms of forced or compulsory labor; effective abolition of child labor; and elimination of discrimination in respect of employment and occupation.

Employee Poll Results

FY12	FY13	FY14
Employee Response Rate		
88%	89%	87%
Employees who feel proud to work at Microsoft		
90%	89%	90%
Employees who feel they are treated with dignity and respect by their managers		
92%	93%	93%
Employees who would recommend Microsoft as a great place to work		
86%	85%	86%
Employees who feel their workgroup values diverse opinions		
86%	86%	88%

In 2014, 86 percent of employees responding to the poll said they would recommend Microsoft as a great place to work.

We ask for—and act on—employee feedback in multiple ways including conducting an annual poll of all our employees around the world. The poll, with a nearly 90 percent response rate, asks employees to share feedback about the Microsoft work experience. Microsoft's Senior Leadership Team and individual managers use the poll results to further improve on areas of strength and address opportunities for improvement.

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3.2 Compensation and Benefits

Microsoft offers competitive compensation and benefits to attract the world's best talent in over 100 countries and rewards people for great results. Our Performance and Development approach and rewards program applies to Microsoft employees globally at every level of the organization to the extent permitted by local law. Stock-based compensation is a key component of our rewards programs at Microsoft as it provides an ownership stake in the company's success. Over 85 percent of Microsoft employees are eligible for an annual stock award. In addition, 90 percent of Microsoft's employees are eligible for a cash bonus. Bonuses focus on an individual's business impact over the past year.

We offer a wide assortment of flexible benefits. Due to local law, local conditions, and employee preferences, some benefits vary by location, but following is a representative sample of the array of benefits we offer:

- Industry-leading health insurance coverage in the US with no employee premiums; and best-in-class medical and dental coverage in which Microsoft funds eligible employees' Health Savings Account for tax-free savings for current or future medical expenses.

- Family benefits including health coverage for spouses, dependents, and domestic partners; subsidy for nearby childcare programs and back-up care for children, adults, and elders; Flexible Spending Accounts for healthcare and childcare; onsite lactation facilities; and adoption assistance and adoptive parent leave.

- Voluntary retirement savings plans, including plans in which the company makes contributions (such as 401(k) Plan matches for US employees of 50 cents on every dollar up to 6 percent of employee contributions).

- Employee Stock Purchase Plan offering employees discounted shares of Microsoft stock.

- Life insurance and accident insurance.

- Family and medical leave programs, including paid and unpaid maternity and paternity leave programs and personal and compassionate leave, subject to local laws.

- Paid time off (vacation and sick days) and paid sabbaticals for qualifying employees.

- Flexible work programs, including flexible schedules, telecommuting, and job-sharing options.

- Voluntary benefits including additional disability insurance and group legal coverage.

- Employee discounts and friends and family discounts for Microsoft products.

- Discount programs for shopping, dining, and travel.

- Commute options, including free or subsidized mass transit tickets, access to free employee shuttles, and on-campus bike shops and secure storage.

- Relocation assistance for eligible employees.

- Education assistance for eligible employees.

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3.3 Workforce Diversity and Inclusion

For over two decades, our Global Diversity and Inclusion Office has evolved and enhanced the company's **diversity and inclusion initiatives** to meet the changing needs of our workforce and our business. As our company embraces a new strategy that calls for increased collaboration between individuals and divisions, the focus on inclusive behaviors as a way to leverage the diversity of our workforce is even more important. The inclusive environment we cultivate helps us retain talented employees and foster their advancement, resulting in more innovative products and solutions for our customers.

Building a Pipeline of Talent and Leaders

As we continue efforts to hire and retain the best talent to fuel our growth and innovation, diversity is a source of strength for us. Therefore, our company is keenly focused on employee recruitment and retention, and career development strategies, as they relate to diversity and inclusion. We have clear and measurable goals company-wide to increase global representation of women and ethnic minorities in the United States, particularly at more senior levels of the organization.

Measures of success for recruiters within our talent and recruiting organizations include meeting representation goals.

We also have a rich history of employee resource groups representing large segments of our diverse population with whom we have regular dialogues around diversity and representation. These groups serve as outreach ambassadors to their communities on behalf of Microsoft and help support important business initiatives— from recruiting and retention efforts to marketing products and services.

We have also developed specific programs around the acquisition of diverse talent which start with our high school internship programs and continue with our executive recruiting efforts. The following are examples of some of our programs that directly address the shortage of diverse students graduating with science, technology, engineering, and mathematics (STEM) degrees:

- For more than a decade we have championed Digigirlz, now part of the Microsoft YouthSpark initiative, which gives high school girls the opportunity to learn about careers in technology, connect with Microsoft employees, and participate in hands-on computer and technology workshops. Just over 15 months ago, we created Codess, which is a community for female coders to explore ways to promote gender diversity in the engineering field.

- Blacks at Microsoft, an employee network, hosts an annual Minority Student Day that provides local area high school students from underrepresented ethnic backgrounds with information about the tools, resources, and career opportunities that are available to them in information technology. It also

awards scholarships to high school seniors and connects recipients with mentors throughout their college careers.

- Our DisAbility Scholarship at Microsoft was created to empower and enable high school students with disabilities to go to college and target a career in the technology industry. The intent is to increase the pool of persons living with a disability enrolling in higher education and help address unemployment as it relates to this demographic.

- The Microsoft STEM scholarship for lesbian, gay, bisexual, and transgender (LGBT) students began three years ago. This year our employees matched the $20,000 given by Microsoft and were able to increase the award to $40,000.

- Explore Microsoft is a 12-week summer internship program that strives to attract women and minorities into technical fields and to Microsoft. It is specifically designed to expose first- and second-year college students to software development and encourage students to pursue degrees in this and other related fields of study.

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3.3 Workforce Diversity and Inclusion

Through these and other programs, we have reached thousands of diverse students around the world, supporting them in their pursuit of technical careers.

While much work remains to be done, we are pleased that FY14 marked a year of continued progress in increasing the diversity of our workforce and leadership, including:

- Growing the percentage of women in our global workforce from 24 to 28 percent;

- Increasing the percentage of Microsoft senior executive women and minorities from 22 to 27 percent;

- Raising the percentage of women and minorities on the Microsoft Board of Directors from 33 to 40 percent.

Building an Inclusive and Engaging Culture

Maximizing the contribution of every individual allows us to infuse diverse thought as a natural part of the way we innovate. With that in mind, we value accountability and learning as key ingredients to nurturing an inclusive culture.

Over the last three years, we have incorporated a Global Diversity and Inclusion Leadership Commitment in the business priorities of more than 16,963 Microsoft people managers. This commitment, which is tied to overall performance and compensation, helps ensure that our people and talent development processes include a focus on diversity.

We also routinely apply our Diversity and Inclusion Maturity Model Assessment across our teams to help evaluate their engagement, progress, and opportunities related to diversity and inclusion issues. As our organizational structure changes, we will work with each new team to complete an assessment in an effort to ensure that diversity and inclusion are infused into our refined business strategy.

2,300

16,963

We pioneered a Global Diversity and Inclusion Leadership Commitment in FY12 to help ensure that our leaders prioritize people and support talent management planning.

In FY13, this commitment was incorporated into the business objectives of more than 2,300 Microsoft leaders.

In FY14, we significantly increased the scope of this commitment by infusing it into the objectives of our 16,963 people managers.

Using data from our annual employee poll, we developed our first-ever "Diversity and Inclusion Index" that allowed us to begin to identify additional opportunities to further develop our company in areas related to culture, diversity, and inclusion.

We have a robust portfolio of diversity and inclusion training courses for all levels of employees and leaders around the world. Key courses include "Managing Inclusion™," "Building an Inclusive Culture: Understanding Conscious and Unconscious Bias," "CulturalDexterity™," and "Consulting for Diversity Hiring," developed specifically for

our international HR and staffing teams focused on gender diversity.

Our continued investment in diversity and inclusion learning and development offerings resulted in an expansion of our "Wired for Success: Career Strategies" program globally with 1,309 women participating across 8 countries, as well as with a new US-based program specifically designed for racial minorities. A key emphasis of the program is highlighting career opportunities at Microsoft, while helping attendees build their networks and grow the skills necessary for more senior individual contributor or leadership roles.

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3.3 Workforce Diversity and Inclusion

Workforce Diversity Data

FY14 Reported Ethnicity Breakout (US Employees) *

Minorities in the US Microsoft Workforce [2]	
FY12	36%
FY13	38%
FY14*	39%

Women in the Global Microsoft Workforce [2]	
FY12	24%
FY13	24%
FY14*	28%

Women and US Minorities on the Board of Directors [2]	
FY12	27%
FY13	33%
FY14	40%

Women and US Minorities in Senior Executive Positions [2]	
FY12	23%
FY13	22%
FY14*	27%

American Indian/
Alaska Native < 1%

Multi-Racial 1%

Native Hawaiian/
Pacific Islander < 1%

African American/Black 3%

Hispanic/Latino(a) 5%

Asian 29%

Caucasian 61%

2 US minorities include the following populations:
   African American/Black, American Indian/Alaskan Native,
   Asian, Hispanic/Latino(a), Native Hawaiian/Pacific Islander,
   and multi-racial.

* FY14 employee data as of June 30, 2014, which includes employees
   from the acquisition of the Nokia Devices and Services business,
   now called Microsoft Mobile Oy (MMO).

3.4 Training and Development

We offer a diverse range of learning and development opportunities including trainings available in the classroom, online, and through videos, mobile apps, podcasts, and other formats in multiple languages to meet the learning needs of our employees around the world. We believe training is not limited to formal instruction and our training philosophy focuses on providing the right learning, at the right time, in the right way.

With training opportunities ranging from classroom modules to peer-to-peer mentoring, no one metric captures the breadth of learning available to Microsoft employees, but globally we have found that:

- 92 percent of all employees were satisfied with the knowledge they gained and could apply to their job immediately with our formal training.

- Our employees spent an average of 30 hours in formal training.

- We helped 16,776 managers globally enhance their management skills through online and classroom-based manager trainings.

We invest significantly in our employees' career development, provide on-the-job "stretch" opportunities for advancement, and offer frequent promotion opportunities, all of which are foundational to our culture.

Throughout the year, employees get coaching on career development through meetings with their manager. Managers receive training to enhance their skills in coaching and mentoring employees on how to achieve the greatest impact, as well as how to drive their own career development, providing tools and resources to support focused and actionable conversations.

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3.5 Employee Wellness and Occupational Health and Safety

Microsoft is committed to supporting our employees' well-being with comprehensive benefits to help employees maximize their physical, financial, and social wellness, including:

- The Microsoft Ergonomics Program, offering employees ergonomic assessment and training programs and special furniture, equipment, and software for medical needs.

- The Microsoft CARES employee assistance program, offering free access to services including personal and family counseling, stress management, and referrals for child/elder care.

- Fitness benefits that fund gym memberships or fitness-related equipment and activities and onsite recreational and fitness opportunities.

- Free onsite "Know Your Numbers" health screening events providing employees and their adult dependents with screening for risks of heart disease, diabetes, high cholesterol, and high blood pressure as well as onsite mammography screenings.

- Healthy dining options including a new Real Easy Wellness labeling system used in all Microsoft cafes with color coding to flag healthier and less healthy options.

- Access for Microsoft employees and their dependents to weight management, tobacco cessation, and chronic disease management programs.

- An onsite health clinic at our Redmond, Washington headquarters campus, offering comprehensive health and wellness services and clinics at some other locations.

In addition to our wellness programs, Microsoft's Health and Safety program integrates appropriate safety and health practices into our operations and works for continual improvement in employee health and safety. As part of this commitment, health and safety professionals assess the safety risks of Microsoft work activities and engage with workers and management to implement safe work practices, hazard controls, and training to minimize safety risks. They also assess new workspaces as they are constructed to ensure sound design-for-safety principles are followed and existing workspaces periodically to ensure needed controls are implemented effectively. Microsoft also involves employees and managers in Health and Safety Committees specific to our datacenters, retail operations, and at our US manufacturing facility.

In FY14, we revised our required new employee orientation training to update the safety and health information given to all new employees. We also deployed an updated online safety training tool to deliver safety training to those workers in higher hazard work environments and last year offered 42 different online and in-person safety course modules.

In FY14, our metrics for occupational injuries and illnesses were comparable to or less than injury-illness rates from other companies with similar operations. Our US facilities had an Injury-Incident Rate of 0.14 and a Lost-Day Rate of 0.02 (our 12-month rolling average for July 1, 2013 - June 30, 2014) based on US OSHA rules for recordkeeping).

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3.6 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: Advancing efforts to increase the diversity of our talent, with a focus on senior-level positions.

In FY14 we increased the percentage of Microsoft senior executive women and minorities from 22 to 27 percent and raised the percentage of women and minorities on the Microsoft Board of Directors from 33 to 40 percent.

Goal: Continuing to employ a variety of reward programs to reinforce our high performing culture while adjusting our approach to performance and rewards, as needed, in response to employee feedback and evolving business needs.

We describe our rewards program above. In FY14, we made significant changes to our Performance and Development approach to help drive our One Microsoft culture of working together and to inform our annual rewards. We rolled out these changes globally to the extent permitted by local law.

Goal: Offering industry-leading health care in the US with no employee premiums and continuing to provide multi-modal educational materials to teach employees and their dependents how to optimize their health care and overall wellness.

We continue to provide educational and support materials to our employees to help them make informed health care decisions. We also continue to invest in preventative and life optimizing wellness programs – for both our employees and in many cases their families as well.

Goal: Creating learning opportunities to increase employees' capabilities and skills, enabling them to deliver amazing devices and services to customers.

We developed learning opportunities focused on helping our employees work with agility and in ways that foster innovation and collaboration and result in greater impact. Our training and resources leveraged leading instructional design and technology to help learners in ways that work for their learning style.

FY15 Commitments

- Continuing to advance our culture of working together to drive meaningful impact for our teams, business, and customers and to adjust our approach to Performance and Development programs, as needed, in response to employee feedback and evolving business needs.

- Continuing to offer industry-leading health care in the United States with no employee premiums and continuing to provide multi-modal educational materials to teach employees and their dependents how to optimize their health care and overall wellness.

- Creating learning that supports our employees' ability to adapt and lead in our changing company, a changing industry, and a changing world.

- Strengthening talent pools by advancing efforts to increase representation of women globally (with a strong focus on technical women), as well as racial minorities in the US.

- Driving innovation and efficiency by infusing diversity and inclusion into our business strategy and by developing innovative products and services to better serve the needs of a broad range of customers.

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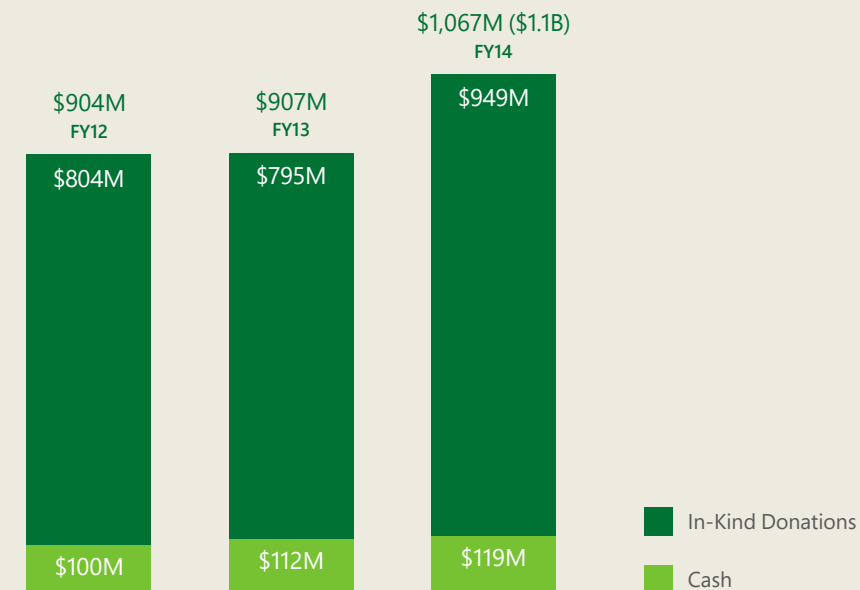
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4.1 Our Approach

Microsoft is committed to applying our technology, talent, and financial resources to serve the needs of communities around the globe where our employees, partners, and customers live and work.

Our Citizenship and Public Affairs team develops and coordinates global strategies that are implemented through local citizenship teams and nonprofit partners to meet unique local needs and conditions. We focus our corporate philanthropy on two strategic areas that align with our business and where we can contribute our skills and resources to create meaningful impact: 1) investing in the future of our communities by empowering youth with greater access to technology education and skills training to help them reach their full potential; and 2) donating technology to nonprofit organizations so they can do even more good for the people they serve.

As a complement to our focused approach to our corporate philanthropy, our flexible volunteer and employee giving programs enable employees to support the causes they choose with donations of time, expertise, money, and software. Our employees regularly tell us a key factor behind their choice to work at Microsoft is knowing their personal commitment to philanthropy will be honored, encouraged, and matched.

We are pleased to report that in FY14 our total annual giving surpassed $1 billion for the first time.
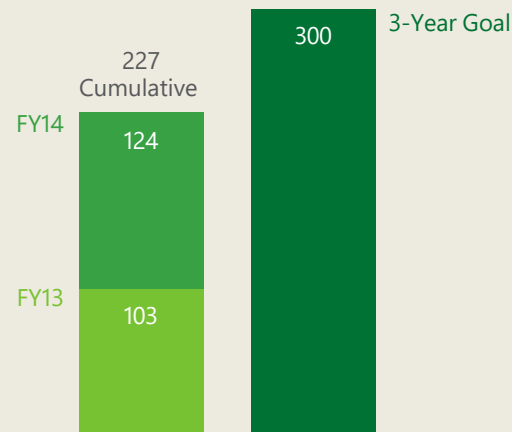
Total Microsoft Giving [1]

$904M
FY12
$804M
$100M

$907M
FY13
$795M
$112M

$1,067M ($1.1B)
FY14
$949M
$119M

■ In-Kind Donations
■ Cash

1   Totals are rounded to the nearest million.

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4.2 Microsoft YouthSpark

Microsoft YouthSpark is a global company-wide initiative to leverage the power of technology to connect youth around the world with education, employment, and entrepreneurship opportunities. We launched YouthSpark in 2012 with the specific goal of creating opportunities for 300 million youth by 2015. We are on track to surpass that goal, having created opportunities for 227 million youth to date, including 124 million youth in FY14.

Progress Toward YouthSpark Goal:
Opportunities Created (Millions)

227 Cumulative

300 3-Year Goal

FY14 124

FY13 103

In developing Microsoft YouthSpark, we consulted with government, nonprofit, and business leaders globally to understand the challenges young people face in building their lives and contributing to their communities. This work highlighted the need to go beyond addressing the "digital divide" and to take a more holistic approach to address the opportunity divide – the gap between those who have the skills, access, and opportunities to be successful and those who do not.

To help close the opportunity gap for millions of youth around the world, Microsoft YouthSpark combines our philanthropic contributions to several hundred youth-serving nonprofit organizations globally with more than 30 Microsoft programs, products, and services and makes

this package of resources easily accessible through our **Microsoft YouthSpark Hub**. The following are just a few of the programs offered on the YouthSpark Hub.

Office 365 for EDU:
Office 365 is free for all students and teachers around the world and provides ready access to technology tools that power learning and collaboration: email, instant messaging, group video and voice chat, and online document viewing and editing.

Skype in the Classroom:
Skype in the Classroom creates a free, global community for teachers to connect their students with other students and guest speakers from around the world.

Computer Science Education – TEALS:
To increase access for young people to learn computer science, Microsoft created TEALS (Technology Education and Literacy in Schools), which places Microsoft employee volunteers in high school classrooms across the United States to partner with local faculty to teach both basic and advanced coding and programming skills.

Imagine Cup:
Microsoft's global youth technology competition challenges students to apply their knowledge and passion to develop technical solutions for social impact, engaging games, and driving innovation.

DreamSpark:
Free access to Microsoft designer and developer tools is provided to high school and college students and their educators to support computer science education around the world.

BizSpark:
Software startups are given access to Microsoft software development tools and connections with key industry players, including investors, to help young entrepreneurs start a new business.

YouthSpark on GlobalGiving:
Microsoft has partnered with GlobalGiving.org to create a fundraising platform that gives individuals a direct and easy way to support young people in their quest for training, education, job placement, and entrepreneurship opportunities.

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■■ Microsoft

4.3 Technology for Good

Microsoft helps build nonprofits' capacity to use technology to be more efficient, effective, and innovative in doing their important work. In FY14 we donated more than $948.6 million worth of software and hardware to more than 86,000 nonprofit organizations around the world.

In FY14, we enhanced our software donations with the launch of **Office 365 for Nonprofits** in 92 countries. The program provides nonprofits with free access to Microsoft's latest Office cloud service, which includes anywhere access to Microsoft Office applications and professional email, calendar, instant messaging (IM), and web conferencing tools. The offering allows nonprofits' employees and strategic volunteers access to Office applications and documents anywhere across multiple devices; enables easy collaboration through content sharing; and offers efficient administrative controls so organizations can spend less time and resources on IT maintenance. Through this program in FY14 we donated $55 million worth of Office 365 subscriptions, providing licenses for 1.5 million employees and strategic volunteers at nearly 11,500 nonprofits around the world.

We also host NGO Connection Days around the globe for nonprofit organizations to learn how technology can help them become more efficient and effective in their work. In FY14, Microsoft collaborated with nonprofits by hosting 45 NGO Connection Days in 35 countries. Through our **Solutions for Good** program, we provide applications that Microsoft and our employees have developed for our own Corporate Citizenship programs to nonprofits to help them advance their missions.

Microsoft In-Kind Donations (Fair Market Value [FMV] of Software and Hardware Donations)			
Year	Microsoft In-Kind Donations ($ FMV)	Number of Nonprofits Receiving Software Donations	Number of Nonprofits Receiving Office 365 for Nonprofits [2]
FY14	$948.6 million	86,399	11,455
FY13	$794.7 million	70,286	–
FY12	$804.5 million	62,231	–

2   Some organizations receiving Office 365 for Nonprofits have also received software through Microsoft's software donation program and are counted in both columns.

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4.4 Humanitarian and Disaster Response

In times of disaster, and to prepare for those times, Microsoft and our partners contribute resources and technology solutions to assist governments and humanitarian organizations in their emergency response efforts. Microsoft's Global Disaster Response Team includes experts from Microsoft Operations, Services, and Citizenship and Public Affairs to quickly deploy Microsoft technologies and technical assistance to customers, communities, governments, and nonprofits in the wake of natural disasters. The team also works to help organizations make technology systems more resilient to proactively prepare for disasters. We also help governments and nonprofits quickly identify and deploy the right technology to address the unique needs of a disaster situation.
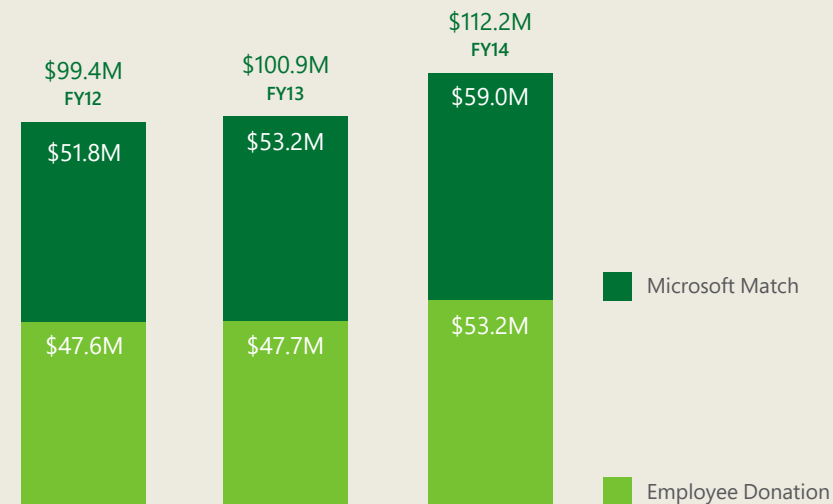
In FY14, Microsoft provided support to address disasters around the world, including flooding in the Balkans and Colorado and a major earthquake and typhoons in the Philippines. Also in FY14, we launched **HelpBridge Version 2.0**, the next generation of our free disaster response mobile app that provides an easy way for people to contact friends and family, donate cash and goods to relief agencies, and volunteer time in the aftermath of a natural disaster such as an earthquake or hurricane. HelpBridge 2.0 lets users simultaneously send status updates to pre-selected groups of emergency contacts via email, SMS, Facebook, and Twitter. It also provides an option to share GPS coordinates, depending on device capabilities, so others can locate the sender in case of an emergency. HelpBridge is available for Windows Phone, Android, and iPhone.

We have more **information online** about our Disaster Response Program including a **report of our FY14 activities and upcoming priorities**.
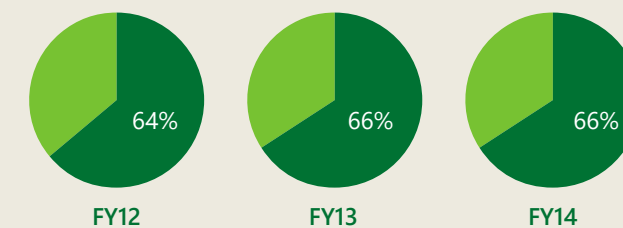
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4.5 Employee Giving and Volunteerism

The foundation of all of our efforts to serve communities is the passion of our employees. Our employee giving benefits vary around the world. Outside the US, employees can take up to 3 paid days off work to volunteer. In the US, our **Employee Giving Program** matches employees' gifts of money and time to nonprofits. In FY14, we enhanced the US Employee Giving Program by increasing the annual matching funds available to each employee from $12,000 to $15,000. We also reduced the number of hours employees need to volunteer to qualify for a matching donation. When employees volunteer at least 4 hours in the community, Microsoft donates $17 per hour to the eligible organizations they serve. In FY14, 66 percent of Microsoft's US employees participated in the Employee Giving Program.

Employee Giving and Company Match Donations

	FY12	FY13	FY14
Total	$99.4M	$100.9M	$112.2M
Microsoft Match	$51.8M	$53.2M	$59.0M
Employee Donation	$47.6M	$47.7M	$53.2M

Employee Giving Campaign Participation Rate (US Employees)

FY12: 64%
FY13: 66%
FY14: 66%

US Volunteerism*

Year	Employees	% of US Workforce	Hours Contributed
FY14	7,144	11.7%	456,365
FY13	5,341	10.8%	430,162
FY12	4,967	8.9%	431,608

* Microsoft's US employees registering for company match to volunteer hours.

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4.6 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: Empowering an additional 100 million youth to imagine and realize their full potential through Microsoft YouthSpark.

In FY14 we exceeded this target, reaching 124 million youth with YouthSpark programs.

Goal: Continuing to evolve and grow the Microsoft Youth-Spark Hub, where young people can explore and access all the youth-focused services, programs, and resources provided by Microsoft.

We launched a major revamp of the YouthSpark Hub in FY14 to provide a more dynamic, engaging user experience specifically designed to help young people find the resources from Microsoft that will be most valuable for them and the future path they choose to pursue.

Goal: Continuing to evolve and grow Give for Youth, a micro-giving portal that helps individuals fund and follow the aspirations of youth around the world.

We transitioned Give for Youth from a standalone portal to a partnership with GlobalGiving, which supported 95,432 youth with donations in FY14.

Goal: Continuing to evolve Innovate for Good, a global online community that encourages and enables youth to collaborate, inspire, and support each other's ideas for social change.

We evolved the Innovate for Good program into YouthSpark Live, a series of global events that help young people identify a path they want to pursue for their future, understand the resources Microsoft has to assist them along the way, and move forward with a clear action plan and next steps to get them closer to making that future a reality.

Goal: Launching the full Office 365 for Nonprofits program in up to 90 countries.

We launched the Office 365 for Nonprofits program in 92 countries in FY14 and donated $55 million worth of Office 365 subscriptions, providing licenses for 1.5 million employees and strategic volunteers at nearly 11,500 NGOs.

Goal: Continuing expansion of access to the Microsoft Software Donation Program with a goal of 80,000 organizations in FY14.

We donated software and services to more than 86,000 nonprofit organizations in FY14.

Goal: Supporting the development and distribution of three to five technology solutions for nonprofits.

We launched HelpBridge 2.0 this year, We also provided **Translators without Borders**, **Benetech**, and **Caravan Studios** with cash, software, and Azure access through a Solutions for Good RFP to develop technology solutions focused on problems related to youth and opportunity, STEM education, disaster response, human rights, and civic engagement.

Goal: Creating a community of excellence within Microsoft to better engage and support nonprofit technology initiatives and solutions.

We have an increasingly active community of approximately 450 engineers and others from across Microsoft engaged in Technology for Good projects and communications channels, including a dedicated email list and Yammer group.

Goal: Working with community partners to support the evolution of hackathons and community-driven solutions for good.

Microsoft is partnering with Caravan Studios to hold six "app generator workshops" that bring together issue experts and technology experts to help define how technology can play a role in addressing specific issues such as food security, safety, and human rights.

Goal: Continuing to expand and enhance our employee programs to excite and encourage record levels of employee and alumni giving and volunteering.

We reached a new record for participation by employees in the US Employee Giving Campaign with 7,144 registered volunteers (nearly 12 percent of the US workforce) and $112.2 million in employee contributions (including Microsoft's match).

Goal: Sharing our technology with other corporations and working with leaders to help scale giving and skills-based volunteering.

In FY14 we worked with Boeing and the NGO TechSoup Global to launch Volunteer Manager. This was a volunteer matching tool developed internally at Microsoft for our own employee programs that we are now making available to companies of all sizes. We've also involved volunteers from over 100 companies in our TEALS computer science program.

FY15 Commitments

- Meeting our YouthSpark target of empowering 300 million youth to imagine and realize their full potential through Microsoft YouthSpark between 2012 and 2015.

- Donating Microsoft software and services to 100,000 nonprofit organizations.

- Activating an additional 1 million users of Office 365 for Nonprofits.

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5.1 Our Approach

Microsoft's commitment to human rights is embedded in our mission of helping people and businesses realize their full potential. We work to ensure that we respect human rights across all aspects of our business and we seek to apply the power of technology to promote human rights globally.

Since endorsing the UN Global Compact in 2006, Microsoft has had a formal commitment to respecting all of the human rights enumerated in the Universal Declaration of Human Rights; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; and ILO Declaration on Fundamental Principles and Rights at Work. Across our business we have a wide range of policies, practices, and programs that relate to human rights, including data privacy and security, free expression, labor rights in our workforce and our supply chain, and equality and diversity.

Building on these fundamental commitments, Microsoft was among the first companies to align our human rights work with the **UN Guiding Principles on Business and Human Rights** released in 2011.

Microsoft's Global Human Rights Statement articulates our human rights commitments in line with the framework of the Guiding Principles, including issues related to governance, due diligence, and remediation. Microsoft details how we meet each of the Guiding Principles in a separate document posted **here** on our Corporate Citizenship website.

In 2014 we incorporated our human rights commitments into our Standards of Business Conduct, which all employees receive and must complete annually (described in depth in the **Ethical Business Conduct and Governance chapter**). Our human rights commitments are also covered in a range of role-specific trainings tailored to particular business functions.

In 2013, we launched the Microsoft Technology and Human Rights Center to prioritize and coordinate human rights due diligence, identify emerging risks and opportunities related to human rights, and promote harmonized approaches to human rights across Microsoft. The Center also works to foster dialogue to advance understanding of the human rights impacts of information and communications technology (ICT). Through the Center, Microsoft engages with a broad range of human rights groups, academics, and industry groups globally to share Microsoft's experiences and lessons learned. Among its activities in FY14, the Center has:

- Hosted a series of roundtables in Brussels, Berlin, San Francisco and Singapore with human rights defenders, policy makers, academics, and other experts and groups to help us better understand how ICT companies can engage most effectively and responsibly with stakeholders on human rights and identify the rights holders directly impacted by ICT companies.

- Held an "app generator" workshop to learn from human rights defenders about the technology applications and tools they need to help them meet their responsibilities to those at risk for human rights abuse.

- Convened a range of events including roundtables at the World Economic Forum Annual Meeting in Davos on LGBT equality and on government surveillance and meetings with institutional investors and corporate lawyers to raise awareness and understanding of the UN Guiding Principles.

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5.2 Privacy and Data Security

Microsoft has a longstanding commitment to ensuring the privacy and security of our customers' data. We have a strong set of Privacy Principles and practices that apply company-wide. We incorporate privacy considerations into our design and development processes, offer our customers meaningful privacy choices, and responsibly manage and protect the customer data that we store. We've led our industry with privacy protections such as the "Do Not Track" feature turned on by default in Internet Explorer 10 and 11 and with our commitment not to scan Outlook or other email services for purposes of targeting online advertising. In recognition of our privacy protections, in April 2014 Microsoft became the first company to receive approval from the European Union (EU)'s 28 data protection authorities affirming that our enterprise cloud contracts meet EU privacy standards.

Revelations about government surveillance practices put a spotlight on online privacy throughout FY14. In response, we instituted new measures to ensure we continue to meet our commitments to data privacy and security and earn customers' trust. This included expanding our use of encryption across our services, providing choice and transparency on data location, and strengthening legal protections for customers. Both on our own and in collaboration with others in our industry, Microsoft is pushing for reform in government surveillance practices. We fought for and won the right to increase our disclosure on the volume of national security orders for customer data we receive from the US government.

Over the past year, some media reports included erroneous information on how governments can access data from Microsoft. Prior to those allegations and again in response to them, Microsoft has categorically stated that we do not provide any government with direct and unfettered access to our customers' data, and we don't provide any back doors. As we've publicly disclosed, if a government wants our customers' data, it must serve us with the appropriate warrant, court order, or subpoena targeted at specific accounts and identifiers. We reject requests that don't meet these requirements, and we only provide the data specified in the legal order.

In keeping with our longstanding commitment to transparency, we publish a semi-annual **Law Enforcement Requests Report** and clearly outline our well-documented practices for responding to government demands for customer data. The report includes the number of demands we receive and the number of accounts or identifiers that may be affected by these demands. We also provide details on the number of demands we complied with and, if we complied, whether we provided content or non-content data. In addition, as a result of a concerted effort by Microsoft and our industry partners, we are now permitted to publish data about the number of legal demands we receive from the US government pursuant to national security laws.

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5.3 Global Network Initiative

Microsoft is a founding member and sits on the board of the **Global Network Initiative** (GNI), a collaborative effort between ICT companies, human rights groups, socially responsible investors, and others. GNI provides a set of **Principles** and **Implementation Guidelines** regarding practical steps and policies ICT companies can adopt to respect and advance the freedom of expression and privacy rights of their users when faced with governmental demands.

The GNI provides for a series of independent assessments that review in increasing depth how its member companies are implementing the GNI Principles. During FY14, Microsoft completed the GNI Phase III Assessment, which is conducted by an independent assessor accredited by the GNI Board. The independent assessor reviews the policies and procedures adopted by the company in accordance with the GNI guidelines and looks at how the policies and procedures were implemented in real-world cases. Based on the results of this assessment and engagement with Microsoft, the GNI Board determined that Microsoft is compliant with the GNI Principles. The assessment found that the systems, policies, and procedures that Microsoft relies upon to implement the GNI Principles are both

mature and subject to ongoing review with an eye to continuous improvement. The GNI's public report on the results of its Phase III company assessments is **available online**.

As part of our commitment to GNI, Microsoft has independent experts in business and human rights conduct Human Rights Impact Assessments (HRIAs) of specific parts of our business. The HRIAs include independent research, internal interviews, and engagement with external stakeholders to identify relevant human rights risks and opportunities for specific Microsoft products, services, business relationships, and markets.

5.4 Working to Protect the Rights of Vulnerable Populations

Microsoft works to help protect people of all ages and abilities against a broad range of risks, including malware, online hoaxes, and online bullying. To promote the safer use of Microsoft devices and online services, we include a range of safety features including family safety settings. We also have strong prohibitions against abusive behavior on our online services in our Terms of Use, which are enforced by complaint response teams on services such as Xbox LIVE.

We promote online safety broadly across the Internet as well. One key resource we bring to this effort is the Microsoft Digital Crimes Unit, an international legal and technical team of more than 100 attorneys, investigators, and forensic analysts around the globe. The Digital Crimes Unit focuses on technology-facilitated child sexual exploitation crimes, piracy and intellectual property crimes, and malicious software crimes, particularly botnet-driven Internet attacks.

Five years ago, Microsoft working with Dartmouth College developed PhotoDNA, a technology tool to help refine and automate the search for child pornography among the billions of photos on the Internet. We use PhotoDNA to help disrupt the spread of child pornography through Microsoft's Bing, OneDrive, and Outlook.com services.

We also donated the PhotoDNA technology to the National Center for Missing & Exploited Children. PhotoDNA has now become the industry standard for combating child pornography online used by NGOs, law enforcement, and other leading Internet companies like Facebook.

Microsoft is now applying our experience addressing technology-facilitated crime to advance the fight against human trafficking. Microsoft has funded foundational research on the role technology plays in facilitating human trafficking in order to identify technologies and measures to counter it. We work with law enforcement agencies and a variety of public-private initiatives to address human trafficking with groups such as the UN Global Initiative to Fight Human Trafficking.

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5.5 Accessible Technology

As a reflection of our commitment to human rights and to our billions of users around the world, Microsoft seeks to provide products and services that empower people across a broad range of abilities, cultures, languages, and levels of economic development. This commitment starts with offering people access to technology in a language familiar to them that respects linguistic and cultural distinctions and helps sustain diverse local languages and cultures. Through the **Microsoft Local Language Program**, Microsoft collaborates with local governments, language authorities, universities, and NGOs to provide individuals access to computing in their native language. The local language program supports more than 108 languages, covering 4.5 billion speakers around the planet. Under the program, Microsoft provides a range of language and translation tools and resources, including free Language Interface Packs to make Windows and Office applications available in local languages ranging from Albanian to Yoruba.

In addition, Microsoft seeks to ensure our technology is accessible to the more than 1 billion people around the world with a disability. The Microsoft Accessibility Standard is a company-wide policy that drives consideration for accessibility into the design, development, evaluation, and release of all of our products and services. Windows, Office, Internet Explorer, Xbox, and our other products and services include accessibility features and controls such as the Ease of Access Center in Windows 8. Beyond its own accessibility features, Microsoft Office 2013 includes an Accessibility Checker that helps users enhance the accessibility of their documents and presentations. We've found that many of our accessibility innovations and features allow us to deliver more flexible user experiences that benefit a wide range of our customers, not just those with disabilities.

Microsoft offers guidance on accessibility to our users, with accessibility information available in over 40 languages. Microsoft Customer Support provides a dedicated support desk for customers who have disabilities or who are looking for support when also using assistive technology, such as screen readers, screen magnifiers, and speech recognition commands. We provide guidance to help users address a broad range of disabilities including:

- **Vision impairments**

- **Dexterity and mobility impairments**

- **Hearing impairments**

- **Learning impairments**

- **Language and communication impairments**

- **Age-related impairments**

We are continually working to raise the awareness of accessibility issues in the technology industry. The Microsoft Accessibility Developer Center provides guidance, tools, and technologies for developing accessible applications and web content. Our tools and guides help governments, schools, businesses, and organizations integrate technology for individuals with disabilities. Microsoft Research and product teams also collaborate with disability experts to unlock **new uses for technologies** that can dramatically benefit the disabled, such as helping paralyzed individuals communicate with their families using eye gaze technology and speech synthesizers on the Microsoft Surface. For more information see **www.microsoft.com/enable**.

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5.6 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: Increasing our commitment to transparency by issuing a Law Enforcement Requests Report.

In March 2013, Microsoft began publishing details of the number of demands we receive each year in our Law Enforcement Requests Report, which we update every six months. During FY14, we also gained permission to begin publishing data about the number of legal demands we receive from the US government pursuant to national security laws that will also be updated every six months.

Goal: Collaborating with privacy stakeholders from around the world to generate new thinking in support of evolved approaches and models to protect privacy.

Microsoft has taken a leadership role along with others in our industry to advocate for new international standards and reforms of government surveillance practices. In FY14, Microsoft also collaborated with a number of leading privacy experts to advance dialogue models to protect privacy through the release of multi-stakeholder recommendations on Data Protection Principles for the 21st Century.

Goal: Developing and deploying technology solutions and applications to advance human rights.

Microsoft has worked with a range of human rights organizations and advocates to better understand their technology needs to protect and advance human rights, including hosting a human rights-focused "app generator" workshop. Microsoft has also worked with the Office of the UN High Commissioner for Human Rights and has plans to deepen this work.

Goal: Continuing to meet Microsoft human rights commitments as outlined in our Global Human Rights Statement.

We recognize that meeting our human rights commitments is an ongoing process and there is much work still to do. We do feel we made significant progress in FY14 in areas such as increasing the amount of information we share about how we respond to law enforcement requests and US national security requests for customer information and in completing an independent assessment of Microsoft's implementation of the GNI Principles on Freedom of Expression and Privacy.

Goal: Advancing public understanding of the human rights impacts of ICT through the work of the Microsoft Technology and Human Rights Center.

The Microsoft Technology and Human Rights Center convened events around the globe in FY14 to advance discussion of topics ranging from how ICT companies define rights holders to addressing issues of government surveillance.

Goal: Performing ongoing assessment of the human rights impacts of our operations.

In addition to our own ongoing reviews of how we are meeting our human rights commitments, in FY14 we contracted with outside experts to conduct HRIAs of significant areas of our operations that are consistent with Principle 18 of the UN Guiding Principles on human rights assessments.

Goal: Advancing internal targeted human rights trainings.

Under our GNI commitments and Principle 16 of the UN Guiding Principles, we provided human rights training opportunities to our Legal and Corporate Affairs teams, Government Affairs field, and Citizenship leads globally. We enhanced our mandatory training on our GNI commitments for all of our privacy managers and others receiving government requests related to online content and customer information. We also incorporated relevant human rights content into mandatory compliance training for our worldwide sales organization, including those who lead public sector sales and development of business partnerships.

Goal: Creating a center of excellence and focus of accessibility across Microsoft engineering and marketing groups.

We launched the Accessibility Leadership Team that meets quarterly to track progress on and inspire innovations for customers with disabilities.

Goal: Establishing accessibility as a globally recognized and respected profession.

Microsoft took an active part in the creation of the first International Association for Accessibility Professionals as a founding member and our Chief Accessibility Officer is the current President of the Board. Over 1,100 individual members from 35 countries have joined the organization.

FY15 Commitments

- Continuing to review our policies and practices to ensure we are meeting our commitments to human rights and to perform ongoing assessments of the human rights impacts of our operations.

- Continuing to advance human rights trainings to targeted internal groups within Microsoft.

- Finalizing a Memorandum of Understanding with the Office of the UN High Commissioner for Human Rights to enhance its use of technology.

- Engaging external stakeholders and human rights defenders to identify opportunities to use technology to defend and advance human rights, including work to apply the power of technology to disrupt human trafficking.

- Collaborating with the GNI to enhance the resources available to help ICT companies assess freedom of expression and privacy impacts.

- Advancing awareness of Microsoft's accessible products and services to meet the needs of K-12 students with disabilities.

- Supporting and advancing the implementation of the UN Convention for the Rights of People with Disabilities.

Responsible Sourcing

6

Microsoft

6.1 Our Approach

Microsoft requires all suppliers doing business with us to uphold the ethical business, employment, environmental, and worker safety practices prescribed in our Supplier Code of Conduct—which aligns with the Electronic Industry Citizenship Coalition's (EICC's) responsible supply chain standards. We've also committed to addressing those issues for the raw materials incorporated into our products. We apply risk-based approaches for the responsible management of all of our suppliers, focusing deeply on our hardware and packaging suppliers. We also work collaboratively with our suppliers on proactive initiatives to positively impact their workers, the communities in which they operate, and their own businesses.

6.2 Social and Environmental Accountability in Our Hardware Supply Chain

Our hardware business has grown steadily since 1982 and has accelerated in the past several years.[1] Our Manufacturing and Supply Chain Group manages our hardware and packaging supply chain, which spans 17 countries around the world. We publish annually a **list of our top 100 production suppliers** for our commercially available hardware products.

Microsoft Production Supplier Locations

Netherlands
Germany
Austria
Italy
USA
Israel
China
South Korea
Japan
Hong Kong
Taiwan
Thailand
Philippines
Vietnam
Malaysia
Singapore
Brazil

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1   In April 2014, Microsoft acquired the Nokia Devices and Services business, which became Microsoft Mobile Oy (MMO), and expanded our supply chain to include mobile device production. This report focuses on Microsoft's supply chain management activities outside of the Nokia Devices and Services acquisition. Since the acquisition, we have been evaluating and aligning our principles, policies, and activities within the Microsoft Devices Group and its suppliers and working to integrate the data that will be presented in our FY15 Microsoft Citizenship Report. For the current reporting year, information about MMO's supply chain sustainability efforts are detailed in the **Nokia People and Planet Report 2013.**

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6.2 Social and Environmental Accountability in Our Hardware Supply Chain

The Manufacturing and Supply Chain Group established the Social and Environmental Accountability (SEA) program in 2005 to ensure that our hardware and packaging suppliers conform to our Supplier Code of Conduct and additional hardware-related requirements for living conditions, safe working practices, and environmental, health and safety protection. These requirements are incorporated into our contracts with Tier 1 suppliers that manufacture our hardware components and products and Tier 2 suppliers contracted by Microsoft to provide components and/or materials to our Tier 1 suppliers. We also require these suppliers to address the issues covered in our SEA specifications with their own upstream and downstream suppliers—those that Microsoft does not contract with directly. Microsoft's factory and sourcing managers are held accountable for SEA performance and work in partnership with Microsoft's SEA team of experts on labor rights and environment, health, and safety practices.

SEA Supplier Engagement Approach

Our SEA program continues to raise the bar with our existing suppliers while onboarding new suppliers to our SEA requirements. All hardware and packaging suppliers that Microsoft directly contracts with undergo qualification assessments to ensure they meet our SEA standards. Before we start doing business together, all Tier 1 and high- and medium-risk Tier 2 suppliers undergo initial capability assessments and audits conducted by third-party auditors and/or members of Microsoft's SEA team. Once these suppliers are onboard, we share with them a scorecard that grades each factory on its conformance with our SEA requirements.

SEA Supplier Engagement Elements

Onboarding Requirements

Contracts

Supplier Code of Conduct

SEA Specifications

→

Assessments, Audits, and Scorecards

Third-Party Auditors and Microsoft SEA Assessors

EICC Requirements plus Microsoft Requirements

Scorecards

→

Corrective Action and Validation

Root Cause Identification

Corrective and Preventative Action

→

Continuous Improvements

Enhanced Living Conditions Checklist

Best Practices

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6.2 Social and Environmental Accountability in Our Hardware Supply Chain

Third-party auditors review our Tier 1 suppliers at least annually and audit our Tier 2 suppliers based on their risk level. Microsoft's SEA team supplements these third-party audits with regular onsite assessments of Tier 1 factories and high- and medium-risk Tier 2 component suppliers.

Third-party auditors and the Microsoft SEA team use audit protocols and tools developed by the EICC that we supplement with additional criteria on environmental protection, ethics, worker health and safety, and management systems. During the review process, auditors examine documentation; visit production lines, dorms, canteens, and waste storage facilities; and conduct face-to-face interviews of workers and factory management. To ensure consistency and quality of third-party audits, in FY14 we developed a qualification program for third-party auditors that includes shadow audits and assessments of onsite audit performance and audit reports.

When auditors or our SEA team find non-conformances with our standards, our SEA team works closely with suppliers on corrective action plans to resolve issues, including building needed capabilities. Suppliers are required to identify the root cause, the corrective course of action, and preventive actions for all of the issues found. Suppliers must correct issues within specific deadlines based on the severity of the nonconformance found to avoid restrictions on new Microsoft business or being given notice that they risk termination of our business.

We also partnered with a China-based NGO to pilot a worker hotline for our suppliers. Among the goals of the hotline is to provide an external channel that will encourage workers to raise and discuss concerns relating to general working conditions and conformance to the Microsoft Supplier Code of Conduct. We piloted this program with four of our eight Tier 1 factories in FY14 and plan to evaluate results and roll it out to additional Tier 1 factories in FY15.

SEA Audit and Assessment Findings

In FY14, we completed 217 third-party audits and Microsoft assessments of 131 Tier 1 and high- and medium-risk Tier 2 suppliers. In this report, we disclose all findings of critical/serious non-conformance with our requirements. All of these critical/serious findings were escalated to Microsoft senior management, and the suppliers were placed on restricted status with no new Microsoft business awarded until the issues were resolved. In all instances, the suppliers instituted corrective action plans that were approved by Microsoft and follow-up audits confirmed that the suppliers were implementing the corrective action plans.
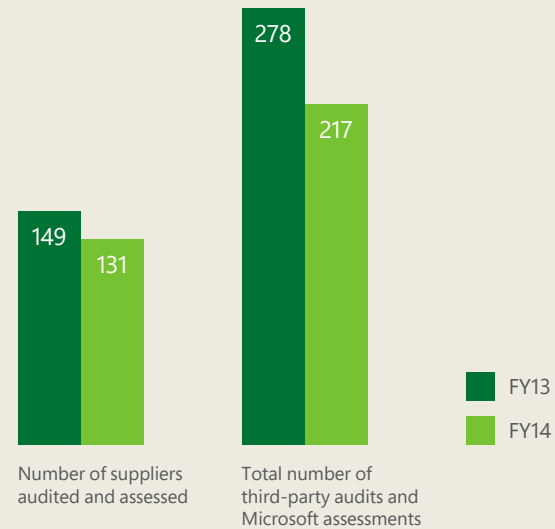
In keeping with our corporate commitment to transparency, we provide year-over-year data on findings of critical/serious nonconformance with the requirements covered in these audits and assessments. Please note that changes in the number of audits and assessments conducted each year and the scope of those audits cause fluctuations in year-over-year comparisons.

For instance, in FY14 we invested significant time and resources working with our third-party audit firms to enhance the rigor of their audits. As a result of the enhanced rigor of third-party audits, the total number of critical/serious non-conformance findings increased in FY14 from the previous year.

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6.2 Social and Environmental Accountability in Our Hardware Supply Chain

SEA Audits and Assessments

278

217

149

131

FY13
FY14

Number of suppliers audited and assessed

Total number of third-party audits and Microsoft assessments

SEA Audit and Assessment Results [1]

Category/Provision	Findings of Critical/Serious Non-conformances	
Labor	**FY13**	**FY14**
Freely Chosen Employment*	2	6
Child Labor Avoidance**	1	3
Working Hours	1	2
Wages and Benefits***	8	14
Humane Treatment	1	3
Non-Discrimination	3	6
Freedom of Association	0	0
Health and Safety		
High-Risk Health & Safety	1	0
Occupational Safety	1	0
Emergency Preparedness and Response	0	0
Occupational Injury and Illness	0	0
Industrial Hygiene	2	2
Physically Demanding Work	0	0
Machine Safeguarding	0	0
Dormitory and Canteen	0	0

Environment	FY13	FY14
Environmental Permits and Reporting	0	0
Pollution Prevention and Resource Reduction	0	0
Hazardous Substances	0	2
Wastewater and Solid Waste	2	1
Air Emissions	0	0
Product Content Restrictions****	–	0
Ethics		
Business Integrity	0	0
No Improper Advantage	0	0
Disclosure of Information****	–	1
Protection of Intellectual Property	0	0
Fair Business, Advertising, and Competition	–	0
Protection of Identity	0	0
Responsible Sourcing of Minerals****	–	0
Privacy****	–	0
Non-retaliation****	–	0

Management Systems	FY13	FY14
Labor and Ethics Mgt Systems	0	0
Environment, Health & Safety Mgt Systems	0	0
Hazardous Substances	0	2
Wastewater and Solid Waste	2	1
Air Emissions	0	0
Product Content Restrictions****	–	0
Total Critical/ Serious Findings	**22**	**40**

* Examples of these six nonconformances include requiring workers to stay in the factory dormitory after work or to have their lunches and dinners only in the factory, as well as two cases where factories kept foreign workers' passports and did not allow workers to refuse overtime work.

** These three cases involved nonconformances for overtime and other requirements that apply to student workers of legal working age. They did not involve under-aged workers. However, under the EICC's audit protocol, nonconformances with protections for student workers are included in this category. All three of these nonconformances have been corrected.

*** The majority of these cases involved factories not paying sufficient overtime compensation according to the local minimum wage.

**** New issue category in FY14.

1 Number of instances found of critical/serious non-conformances by third-party audits and Microsoft SEA assessments (which are both based on the EICC audit protocols with additional Microsoft requirements).

Microsoft

(6.2) Social and Environmental Accountability in Our Hardware Supply Chain

Enhancing Workplace Experiences

Beyond compliance audits and assessments, we work with our contracted suppliers to build their capabilities by sharing experiences and best practices, including detailed guidelines on how to improve factory workers' living environments and environmental health and safety systems. An example of this is the implementation of our Tier 1 Model Factory Scorecard created in FY13 with input from worker surveys and suppliers to identify best practices in living and working conditions.

The Model Factory Scorecard provides Tier 1 suppliers and Microsoft factory managers with each supplier's performance against SEA requirements and identifies best practices to help factories achieve higher standards in the following areas: compliance management system and performance; living conditions; worker training and development; environmental health and safety; and communication and transparency. In FY14, we began rating each of our Tier 1

factories on the Model Factory Scorecard on a quarterly basis. Over the course of the year, we measured significant improvements in factory performance and management systems related to the compliance section of the scorecard. At the start of FY14, none of our eight Tier 1 suppliers met our target performance goal of 95 percent or more on the scorecard; by the end of FY14, six of our Tier 1 suppliers achieved the target performance goal.

In FY14 we also significantly expanded job-related and life skills training opportunities in our Tier 1 supplier factories. To bring our successful China YouthSpark Information Technology (IT) skills training program to factory workers, we created and launched both classroom-based and self-guided online IT skills courses designed for delivery at manufacturing facilities in China. In the second half of FY14 we piloted the training at one Tier 1 factory and reached over 3,300 workers in the first six months of the program. That program will continue and we seek to roll out the training to other Tier 1 suppliers in FY15.

Other training investments in FY14 included:

• Developing life skills video trainings on topics like financial management and interpersonal communication;

• Providing reproductive health education programs at all of our Tier 1 suppliers through the HERproject (Health Enables Returns) run by Business for Social Responsibility;

• Piloting line leader capability training to improve front-line supervisors' communication skills and management effectiveness; and

• Creating parenting programs to support migrant parent workers who may be far away from their families.

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(6.2) Social and Environmental Accountability in Our Hardware Supply Chain

Environmental, Health, and Safety Capability Building

Factory worker health and safety is a top priority for Microsoft. Over the past four years we have significantly expanded our engagements to help suppliers create and maintain safe working environments. In FY14 we expanded the reach of these efforts across our hardware and packaging supply chain. These programs included:

Training Resources:
In FY14, we developed and made available to suppliers 40 environmental, health, and safety (EH&S) training course modules. We also conducted trainings for 20 high-risk suppliers, benefitting more than 20,000 workers.

Management System Resources:
We worked with factory management to emphasize the need to use competent and experienced EH&S professionals to define and implement the programs necessary to build a culture of health and safety. To address this, we piloted a number of training modules in our Tier 1 and high-risk Tier 2 suppliers including "Safety Culture," "EH&S Professionals and Senior Management Capability Improvement," "EH&S Employee Participation," "Risk Behavior Change," "EH&S Standardization," "Risk Assessment," "Chemical Safety and Management," "Line Manager EH&S Skills Improvement," "Safety Officer Certification for EH&S Staff," "Prevention of Occupational Disease," and "Effective Water Management."

Injury Data Tracking:
In FY14, we began tracking key health and safety performance indicators for our Tier 1 factories using standard OSHA metrics. In FY14, our Tier 1 suppliers averaged a work-related injuries and illness rate of 0.19 versus an industry benchmark of 1.4 and a lost working-hour accident rate also of 0.19 versus an industry benchmark of 0.7.

Key Tier 2 Supplier Improvement Program:
To address a special need for additional capacity building among some Tier 2 suppliers, we launched a new program to provide targeted component suppliers with onsite consulting from the SEA program team. We also continue our program to target our lowest performing component suppliers with special additional inspections that include Microsoft executives as well as SEA and Sourcing team members. This subset of suppliers face an additional compliance scorecard and must improve their performance within a quarter. As a result of the close engagement and collaboration with suppliers to make improvements identified during these audits and assessments, factory and worker conditions have advanced at many of our suppliers.

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6.3 Responsible Sourcing of Raw Materials

Microsoft's commitment to the responsible production of our hardware and packaging extends to the raw materials that go into them. Like many in our industry, we have applied a particular focus to the issue of conflict minerals: tungsten, tin, tantalum, and gold that may be sourced from mines that fund armed groups operating in and around the Democratic Republic of the Congo and adjoining countries. However, this year we formalized our values and approach around upstream responsible sourcing through "**Microsoft's Responsible Sourcing of Raw Materials**" policy that goes beyond conflict minerals to apply to all materials sourced around the world. This policy extends our Supplier Code of Conduct expectations in support of human rights, labor, health and safety, environmental protection, and business ethics to all harvested and extracted materials incorporated into our products.

We exercise due diligence across our supply chain through a raw material tracing process that allows us to immediately identify the constituent substances used in our products and trace them back to their associated suppliers. Beyond our own supply chain due diligence, we are collaborating with a broad range of stakeholders to promote the development of standards for sustainable mining across the entire mining sector, from small artisanal mines to large operations. These efforts include working with the **Initiative for Responsible**

Mining Assurance (IRMA), **Pact**, and the **Alliance for Responsible Mining**. It is our intention that these initiatives eventually will result in standards that enable our suppliers to purchase responsibly sourced materials for use in our products and address important challenges for the supply chains dependent upon the use of metals, ranging from under-aged labor to environmental degradation. On the specific issue of tin originating from Indonesia, Microsoft is also a member of the IDH Tin Working Group, which brings together a range of stakeholders seeking to address the social and environmental issues related to tin mining.

In another example, we have collaborated with our suppliers and other hardware companies since 2007 to address conflict minerals from the eastern DRC. We prohibit our suppliers from using any minerals that they know are not DRC conflict free, and we expect our suppliers to engage in robust due diligence activities. We provide a detailed discussion of our conflict minerals due diligence process and findings in our **June 2014 Conflict Minerals Report** filed with the US Securities and Exchange Commission under requirements of the Dodd-Frank Act. Microsoft's report has been cited for its leadership in transparency with the disclosure of as much smelter-level and country-of-origin data as we have available. As with our broader efforts on mining sustainability, we believe that collaborative partnerships are most effective in addressing conflict minerals.

We have supported the Conflict Free Smelter Initiative (CFSI) since its inception in 2010 and funded an early adopters program to make it easier for smelters to become certified through CFSI's Conflict Free Smelter Program.

We support several other organizations promoting responsible mining and an end to conflict in and around the DRC, including the Public-Private Alliance for Responsible Minerals Trade and the Responsible Sourcing Network's Multi-Stakeholder Group.

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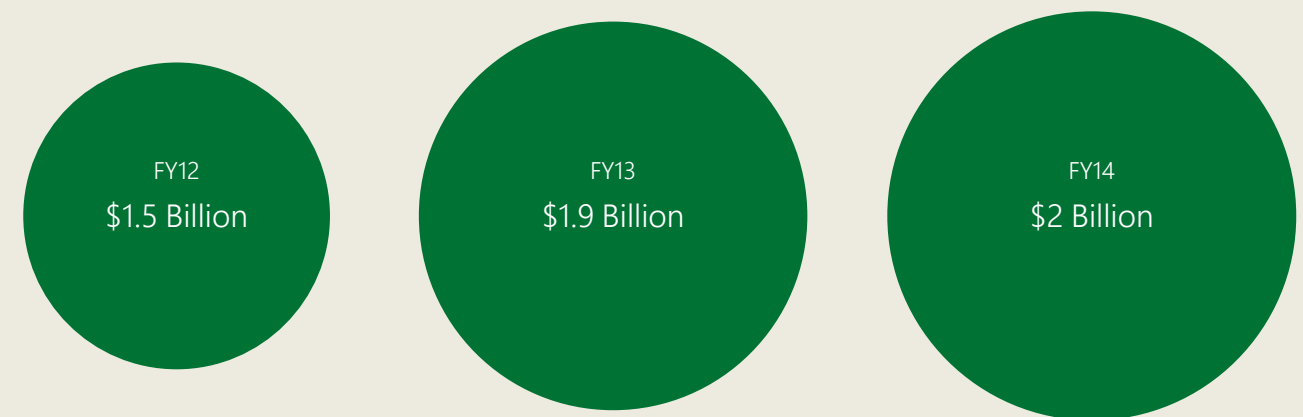## 6.4 Addressing Non-hardware Suppliers

In FY13, Microsoft created a new management function to consolidate and enhance responsible sourcing activities related to our non-hardware suppliers. In FY14, Microsoft began to screen our non-hardware suppliers on an ongoing basis against 23 different ethical, social, and environmental risks by country and by commodity category. We also began to roll out new assurance requirements for suppliers found to pose the highest risks. These include EICC-based supplier self-assessment questionnaires, contractually binding Responsible Sourcing Requirements, quarterly scorecards, onsite assessments, and third-party audits.

Beyond risk mitigation, we also work to advance citizenship projects with our suppliers that create shared value. We provide curriculum and support to help our suppliers host Supplier YouthSpark Community Technology Centers, which offer technology skills trainings to supplier employees and to local community members. To date, we have partnered with 16 suppliers to host these centers at 26 locations in 13 countries and have trained over 40,000 participants, including almost 12,000 in FY14. In FY14 we also collaborated with the Rockefeller Foundation to research and promote best practices in "Impact Sourcing," which involves seeking suppliers that intentionally employ people who have limited opportunity for sustainable employment—often in low-income areas. To date Microsoft has supported impact sourcing projects in the United States, Kenya, Uganda, and India and we are working to extend this approach with more suppliers in other geographies.

In addition, Microsoft has a long-standing and strong commitment to source from historically disadvantaged groups. Our Procurement team is committed to increasing our spending with diverse suppliers as part of our **Supplier Diversity Program.** In FY14, Microsoft spent $2 billion with minority-, disabled-, veteran-, and woman-owned businesses, placing Microsoft in the top 20 companies globally for spending with diverse suppliers.

Microsoft Spending with Minority-, Disabled-, Veteran-, and Woman-Owned Businesses

FY12
$1.5 Billion

FY13
$1.9 Billion

FY14
$2 Billion

Microsoft

6.5 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: Enhancing working and living conditions in our Tier 1 factories through efforts such as implementation of our Model Factory Program, which includes standardized living condition requirements, life skills classes, IT skills training, and enhanced worker grievance reporting programs.

We fully implemented our Model Factory Program and scorecard with our Tier 1 factories and saw notable improvements in their performance over the course of FY14.

Goal: Reducing EH&S risks by providing additional guidelines on common deficiencies identified in our audits.

We significantly enhanced the EH&S resources and trainings that we provide to suppliers.

Goal: Improving overall capabilities of low-performing, high-risk Tier 2 factories by providing consulting and training on identified deficiencies.

We launched a new program to provide targeted component suppliers with onsite consulting from the SEA program team to identify root causes of health and safety risks and determine the necessary training and capability programs needed to address these issues long term.

Goal: Continuing to work to advance industry-wide efforts to achieve a conflict mineral-free electronics supply chain, to implement our own conflict minerals due diligences processes, and to meet the new public disclosure requirements of the Dodd-Frank Act that go into effect in May 2014.

We focused on efforts both in our supply chain and across our industry to address conflict minerals and broader issues under our Responsible Sourcing of Raw Materials policy. Our first Conflict Minerals Report filed with the Securities and Exchange Commission has been cited for leadership in transparency with the disclosure of as much smelter-level and country-of-origin data that we have available.

FY15 Commitments

- Evaluating and aligning our principles, policies, and activities across the Microsoft Devices Group to include the factories and suppliers related to the Nokia Devices and Services business we acquired near the end of FY14.

- Continuing to scale our SEA supply chain programs such as the Model Factory Program, Worker Grievance reporting, and EH&S capability building to continue to enhance worker living and working conditions.

- Continuing to invest in improving the management system capabilities of low-performing, high-risk Tier 2 factories by providing targeted SEA consulting and training.

- Working collaboratively with NGOs and others in our industry to advance the goals of the Microsoft Policy on Responsible Sourcing of Raw Materials, including further progress addressing conflict minerals.

- Enhancing the screening of our non-hardware supply chain annually for ethical, social, and environmental risks and deepening assurance requirements for suppliers found to pose the highest risks. These will include EICC-based supplier self-assessment questionnaires, contractually binding Responsible Sourcing Requirements, quarterly scorecards, onsite assessments, and third-party audits.

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7.1 Our Approach

At Microsoft, environmental sustainability is both a responsibility and an opportunity to create business value in how we operate, how we serve our customers, and how we contribute to society. We work to reduce the environmental impact of our own operations and of the services and devices that we offer and also collaborate with customers, business partners, governments, NGOs, and others to apply the power of information technology to address pressing environmental problems.

Environmental Principles, Policies, and Management

Microsoft's commitment to environmental sustainability is articulated in our **Environmental Principles** and **Climate Change Policy Statement** and embedded in other corporate policies for how we run our business, such as our **Environmental Compliance Specifications** for hardware and our policy on **Responsible Sourcing of Raw Materials**.

Microsoft has a global corporate environmental strategy team and environmental experts embedded within engineering, manufacturing and supply chain, procurement, research, real estate and facilities, datacenters, and legal and corporate affairs. Their work is governed through executive oversight and is reviewed semi-annually by the Regulatory and Public Policy Committee of our Board of Directors.

To reduce the environmental impact of our own operations, our corporate environmental strategy is to "**Be Lean, Be Green, Be Accountable**":

- Be Lean by reducing operational energy use, water use, and waste.

- Be Green by increasing our purchase of renewable energy and carbon offsets.

- Be Accountable by quantifying the carbon impact of our operations and driving responsible business decisions around energy use and air travel by:
  – Measuring our emissions.
  – Setting an internal price on carbon.
  – Charging a carbon fee to the teams responsible for those emissions.

Our environmental strategy includes a corporate carbon neutrality goal as well as goals for specific areas of our business, ranging from datacenter efficiency to energy and waste reduction at Microsoft campuses to the use of recycled content in packaging. Microsoft employees receive the appropriate role-based environmental training and certifications as needed for their jobs, such as

training in chemical management for hardware lab employees and design for environment training for packaging engineers. We also promote broad environmental awareness by emailing an annual update on our environmental goals and progress to all Microsoft employees globally.

Microsoft has had selected parts of our business such as our European Operations Center externally certified to the International Organization for Standardization (ISO) 14001 environmental management standard for a number of years. In FY14 we took a major step forward by gaining a **cross-company ISO 14001 certification** for Microsoft's hardware and packaging manufacturing supply chain. Though we have had a longstanding commitment to supply chain sustainability, including a **Supplier Code of Conduct** that requires Microsoft suppliers to demonstrate social and environmental responsibility, this level of certification represents a new commitment to minimizing the environmental footprint of our hardware and packaging.

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7.2 Climate and Energy

Microsoft's Climate Change Policy Statement recognizes that climate change is "a serious challenge that requires a comprehensive and global response from all sectors of society." To do our part, Microsoft has worked hard to reduce the carbon footprint of our operations, committed to carbon neutrality, and engaged our customers and others around the globe to help tackle the challenge of climate change. In recognition of our climate efforts, CDP (formerly the Carbon Disclosure Project) included Microsoft on its Global 500 Climate Performance Leadership Index in September 2013. We earned the top grade "A" in CDP's assessment of our performance to promote climate change mitigation, adaptation, and transparency, and CDP rated our disclosure and transparency on climate issues at 96 out of 100.

Carbon Neutrality Commitment and Carbon Fee

Microsoft is committed to being carbon neutral globally—meaning net-zero emissions from business air travel and the energy to power our datacenters, software development labs, and offices worldwide. To meet our commitment, we instituted an internal carbon fee model that drives accountability across Microsoft's global business while raising funds to invest in internal efficiency projects, renewable energy, and carbon offset projects.

We met our carbon neutrality commitment in FY14 through internal efficiency projects, the purchase of more than 3 billion kilowatt hours (kWh) of renewable energy, and a carbon offset project portfolio representing 600,000 metric tons of carbon dioxide (CO2) emissions. Besides addressing greenhouse gas emissions, the projects protect ecosystems and benefit nearly 3 million people with improved health, income, and employment opportunities. To share more detailed insights and lessons learned from implementing the carbon fee, we published a guide for organizations considering the model, which is available online: **The Microsoft Carbon Fee: Theory and Practice**.

Driving Energy Efficiency Across Our Operations

Buildings:
All new buildings that Microsoft owns are built to LEED standards, using approximately 20 percent less energy than traditional buildings and less water. In addition, we've created environmental showcase projects around the world from Hyderabad, India, to Shanghai, China. We also seek to reduce energy use in existing buildings. Over the past two years, Microsoft has cut energy use by up to 10 percent at our 125-building, 500-acre Redmond campus with our **Energy-Smart Buildings initiative**. The initiative uses an interconnected energy management system that analyzes 500 million data transactions per day from 30,000 pieces of equipment to flag problems and prioritize fixes. The system has quickly paid for itself, saving $2 million in energy costs its first year.

Datacenters:
We're designing energy-saving approaches into our new datacenters, such as using outside air cooling and airside economizers that dramatically cut the energy and water used for cooling. These measures have helped us achieve a goal set by our datacenter team that all new datacenters have an average 1.125 Power Usage Effectiveness (PUE), which is one-third less than the industry average datacenter PUE of 1.7. Our total fleet of datacenters (new and existing) has an average PUE of 1.4. We are working to further improve the efficiency of our existing datacenters with lower-energy servers, compressor energy reduction, and custom light-emitting diode (LED) lighting. We are concerned about not just efficiency inside the datacenter, but also how to create dramatically more efficient systems, from the power plant to the chip. Examples of this approach include our pilot datacenter in Cheyenne, Wyoming, which will run completely independently of the grid using energy generated from biogas, a byproduct of a nearby water treatment plant. We've also pioneered a new concept to integrate fuel cells directly into server racks, stripping out most of the infrastructure found in the traditional datacenter energy supply chain, which we expect to effectively cut the energy use in half by eliminating transmission losses and other inefficiencies. Beyond the datacenters themselves, we're building energy-saving features into our cloud services, such as the ability for developers to automatically scale their resource use to demand.

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Using Renewable Energy

In order of preference, we seek to use renewable energy by:

1	2	3
Connecting facilities directly to renewable energy sources where feasible.	Signing long-term renewable power purchase agreements in regions where we have operations and those projects are viable.	Investing in renewable energy certificates (RECs) to match our total electricity usage with the equivalent number of RECs that are credible, are verifiable, and add additional renewable energy to the grid.

During FY14, we purchased more than 3 billion kWh of green power, equal to 100 percent of our global electricity use. We also signed a 20-year agreement to purchase 100 percent of the output of the 110-megawatt (MW) Keechi Wind project, a new wind farm that will begin operating in 2015. We generate a small amount of onsite renewable energy, such as from solar panels covering the rooftops on our Silicon Valley campus. Finally, access to renewable energy is among the criteria that we consider in siting datacenters. A number of our datacenters, like our complex in Quincy, Washington, are powered by hydroelectricity.

Driving Energy Efficiency in Our Services and Devices

We are focused on and committed to increasing computing power per unit of energy consumed across the services and devices that we offer in the marketplace. Each new version of Windows offers enhancements to energy efficiency and power management tools. Through products like Microsoft System Center we provide IT administrators with controls to implement group policies

that apply energy-saving power management settings across all the computers on their network. The move to cloud computing is also enabling more efficient computing, which we're boosting by building new energy-saving features into our cloud services. Our Azure online service includes tools to allow developers to easily auto-scale their applications, which reduces energy use and their costs.

We're also driving energy efficiency in our devices. The latest version of the Xbox 360, for instance, uses less than half the energy for game play and navigation mode than the first Xbox released in 2005. Despite its increased next-generation computing power and functionality, the Xbox One launch version uses less power than the launch version of the Xbox 360 did (although more than the latest Xbox 360 version). We ship all Xbox consoles with auto-power down features turned on by default so that when the consoles are not being used they automatically turn off. Similarly, the Microsoft Surface tablet launched with dramatically lower power consumption than current laptop computers and we've held energy use steady as we've introduced newer, more powerful versions.

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(7.2) Climate and Energy

Public Policy Engagement on Climate and Energy

Microsoft is working to advance public policies that promote the use of information and communication technology (ICT) to advance energy efficiency, spur innovation and economic opportunity, and contribute to practical strategies for mitigating climate change. For the past five years, our annual Global Public Policy Agenda has included a section supporting government policies that support technological advances and innovation to reduce energy use and limit the effects of climate change. For the **2014-2015 Global Public Policy Agenda**, we strengthened the energy and environment section by expressing a preference for "cost-effective policies that increase the availability of low carbon and renewable energy for us to use in our operations."

We have also supported industry and multi-stakeholder initiatives to address climate policy. Among these:

- We are a signatory to the **Climate Declaration**, a nonpartisan statement from the business community developed by Ceres and its Business for Innovative Climate & Energy Policy (BICEP) coalition, which notes that "tackling climate change is one of America's greatest economic opportunities of the 21st century."

- We are a founding member of the **Digital Energy & Sustainability Solutions Campaign (DESSC)**, a coalition of leading ICT companies and environmental NGOs. DESSC is committed to advancing public policies that help drive sustainable economic growth through ICT-enabled energy efficiency and clean energy innovation.

- We serve on the board of the **Global e-Sustainability Initiative** (GeSI), a collaborative effort between leading IT companies and the United Nations Environment Programme and International Telecommunication Union. GeSI created the influential Smart 2020 report on ways that IT can address climate change and led the development of the US Addendum to the Smart 2020 report and an update, the **Smarter 2020 report**.

Carbon Footprint and Energy Use

We strongly believe in the importance of measuring and transparently disclosing our carbon footprint. We have voluntarily reported our carbon footprint through CDP since 2004, and our past carbon emissions are available at **www.cdproject.net**. We also require our contracted hardware suppliers to report their emissions to CDP. For other categories of suppliers, we promoted carbon footprint reporting with a pilot project in FY14 to provide training on CDP reporting and to fund a select set of suppliers' registration fees for CDP reporting. The following graphs and charts detail the highlights of our most recent filing with CDP and trends in our greenhouse gas emissions and energy use.[1]

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1 Note that because the CDP reporting deadline closes in May before the end of our fiscal year, the most recent CDP carbon footprint data we have available and verified is for FY13, not FY14. FY13 is also the first year we have data available on a fiscal year basis. We previously reported by calendar year. Our greenhouse gas and energy data provided in our CDP filings and this report represent 100 percent of Microsoft's global operations and revenue.

7.2 Climate and Energy

FY13 Climate and Energy Data [1]

Greenhouse Gas (GHG) Emissions	
Direct Emissions	
Gross Scope 1 Emissions, mtCO2e	39,665
Gross Scope 1 Emissions, by GHG type, mtCO2e	
CO2	32,180
CH4	17
N2O	90
HFCs	7,378
Scope 1 Emissions Balanced by Carbon Offset Purchases, mtCO2e	(39,665)
Net Scope 1 Emissions, mtCO2e	0
Indirect Emissions	
Gross Scope 2 Emissions, mtCO2e	1,277,364
Scope 2 Emissions balanced by Green Power Purchases, mtCO2e	(1,010,840)
Scope 2 Emissions balanced by Carbon Offset Purchases, mtCO2e	(266,524)
Net Scope 2 Emissions, mtCO2e	0

Indirect Emissions (continued)	
Gross Scope 3 Emissions, mtCO2e	
Purchased Goods and Services*	7,000,000
Capital Goods*	50,000
Fuel- and Energy-Related Activities (not included in Scope 1 or 2)	232,079
Upstream Transportation and Distribution*	100,000
Waste Generated in Operations	2,750
Downstream Leased Assets	4,000
Business Air Travel	293,811
Business Travel, other	8,199
Scope 3 Emissions, Business Air Travel, balanced by Carbon Offset Purchases, mtCO2e	(293,811)
Net Scope 3 Emissions, Business Air Travel, mtCO2e	0

Energy	
Total Energy Use, MWh	2,898,299
Total Energy Use by Type, MWh	
Fuel	154,944
Electricity	2,732,483
Heat	0
Steam	1,402
Cooling	9,470
Renewable Energy Purchased or Generated and Consumed, MWh**	1,363,217
Renewable Energy Purchased or Generated and Consumed, % of Total Energy Use	47%
Renewable Energy Purchased or Generated and Consumed by Source, MWh	
Wind	1,237,191
Landfill gas	64,498
Biomass	60,905
On-Site Solar PV	624
Non-Renewable Energy Use, MWh	1,535,082
Non-Renewable Energy Use, % of Total Energy Use	53%

Carbon Offsets	
Total Purchase of Carbon Offsets, mtCO2e	600,000
Total Direct GHG Emissions balanced by Carbon Offset Purchases, %	100%
Indirect Emissions (Scope 2 and Scope 3 business air travel) balanced by Carbon Offset Purchases, %	36%
Total Sale of Carbon Offsets, mtCO2e	0
Total Use of Carbon Sequestration/Capture	0

* The reported emissions for this category represent an estimate based on broad-based assumptions and have therefore been rounded. This category may be under- or over-reported by as much as 50 percent.

** Electricity data includes on-site solar generation as well as all electricity purchased and consumed.
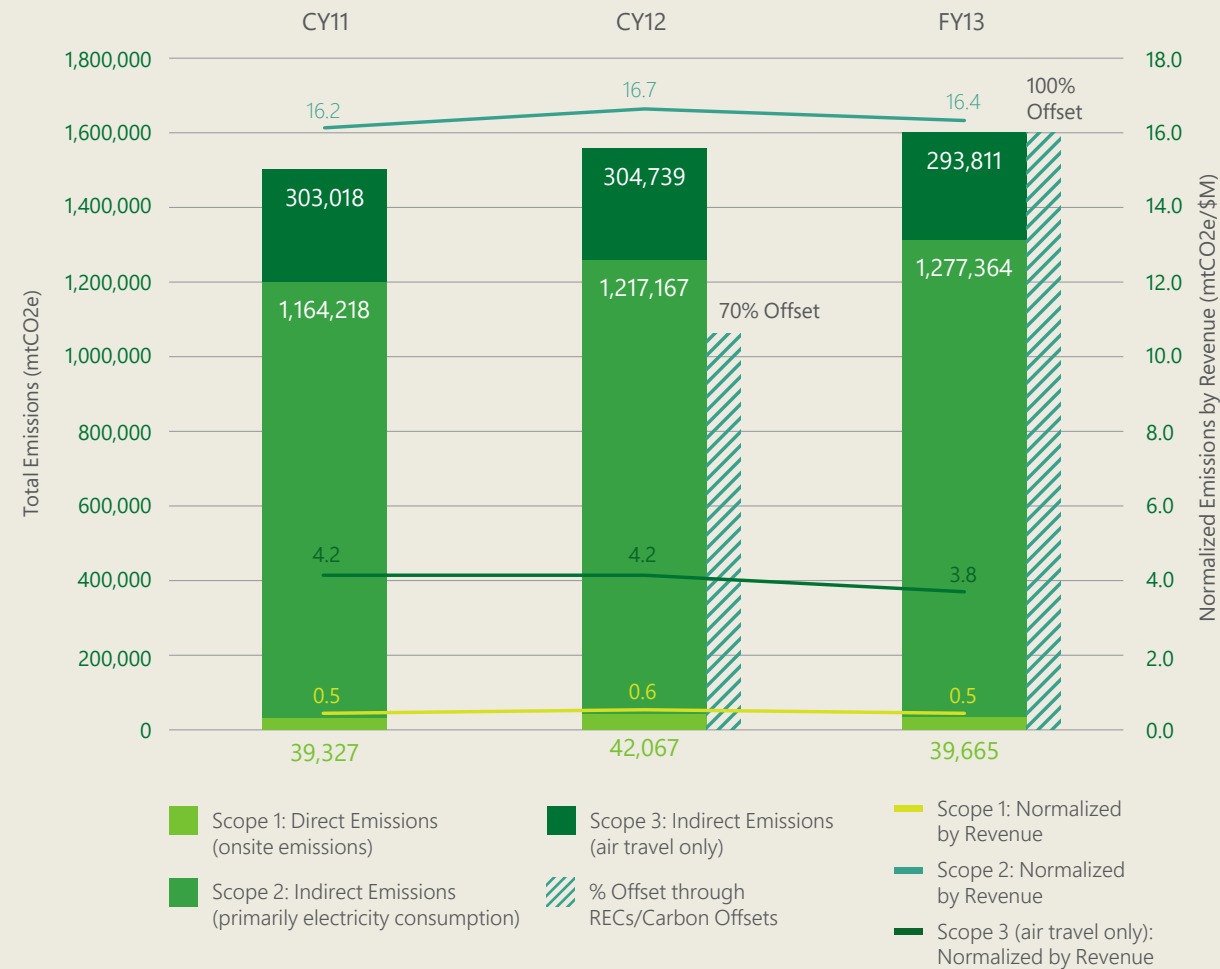
mtCO2e = metric tons CO2 equivalent; **MWh** = megawatt hours.

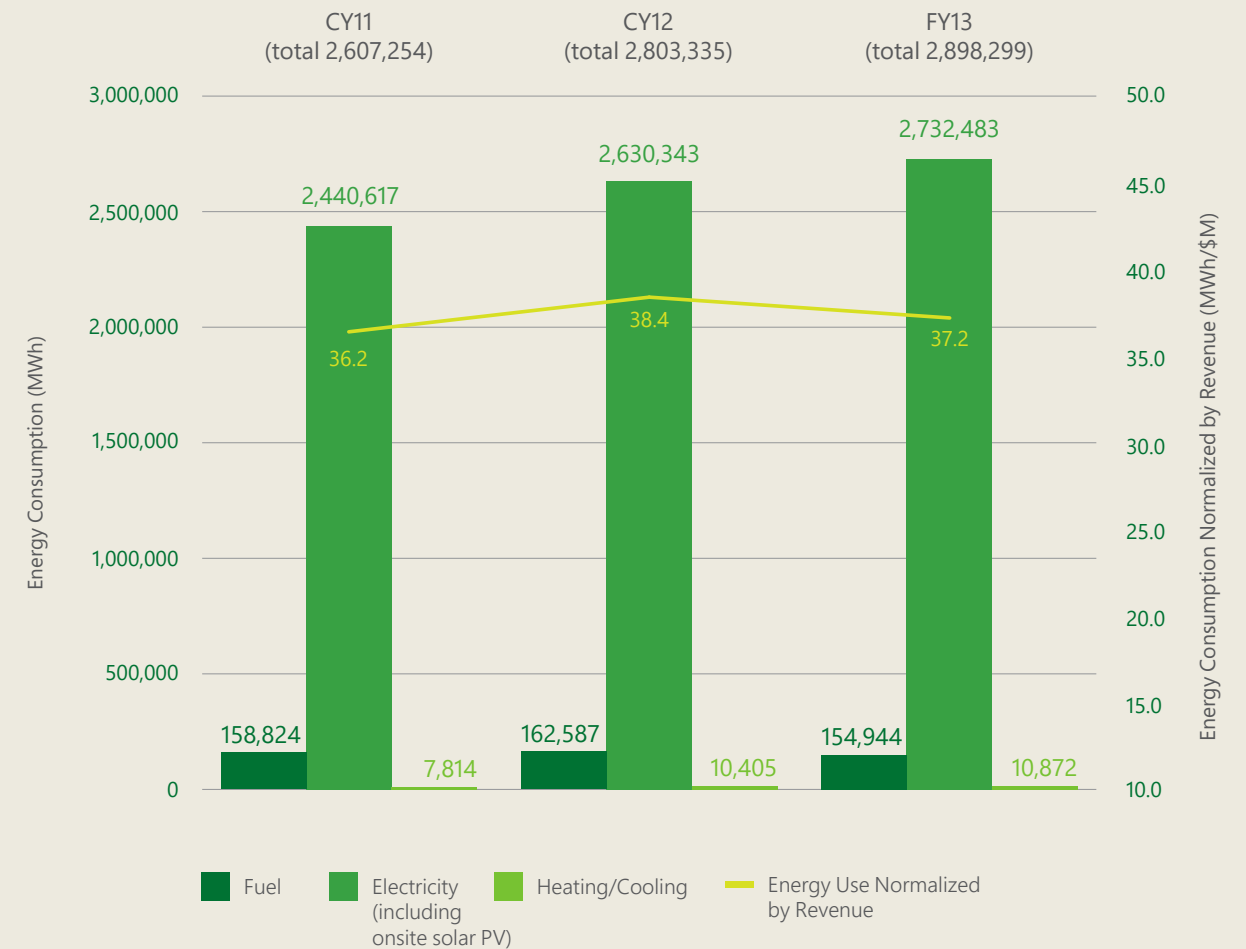1   Data provided covers 100% of Microsoft's global operations and revenues.

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7.2 Climate and Energy

Year-Over-Year Greenhouse Gas Emissions *

	CY11	CY12	FY13

Total Emissions (mtCO2e)

Normalized Emissions by Revenue (mtCO2e/$M)

- 16.2
- 16.7
- 16.4   100% Offset

- 303,018
- 304,739
- 293,811

- 1,164,218
- 1,217,167   70% Offset
- 1,277,364

- 4.2
- 4.2
- 3.8

- 0.5
- 0.6
- 0.5

- 39,327
- 42,067
- 39,665

Legend:
- ■ Scope 1: Direct Emissions (onsite emissions)
- ■ Scope 2: Indirect Emissions (primarily electricity consumption)
- ■ Scope 3: Indirect Emissions (air travel only)
- ▨ % Offset through RECs/Carbon Offsets
- — Scope 1: Normalized by Revenue
- — Scope 2: Normalized by Revenue
- — Scope 3 (air travel only): Normalized by Revenue

Year-Over-Year Energy Use *

CY11 (total 2,607,254)	CY12 (total 2,803,335)	FY13 (total 2,898,299)

Energy Consumption (MWh)

Energy Consumption Normalized by Revenue (MWh/$M)

- 2,440,617
- 2,630,343
- 2,732,483

- 36.2
- 38.4
- 37.2

- 158,824
- 162,587
- 154,944

- 7,814
- 10,405
- 10,872

Legend:
- ■ Fuel
- ■ Electricity (including onsite solar PV)
- ■ Heating/Cooling
- — Energy Use Normalized by Revenue

* Data provided covers 100% of Microsoft's global operations and revenues.

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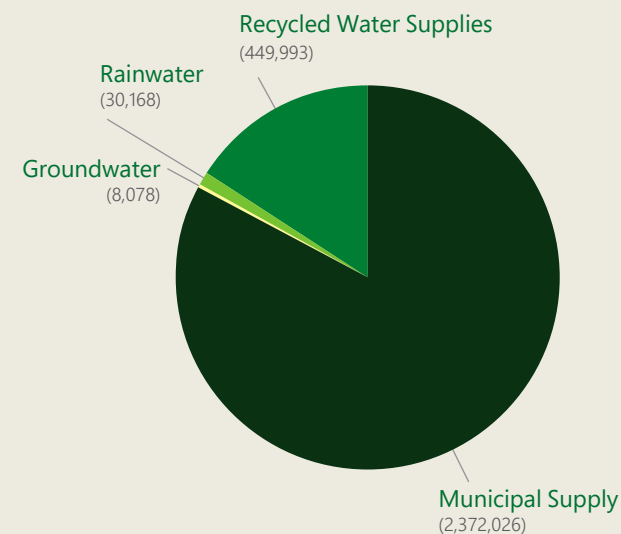
Microsoft

7.3 Operational Impacts

Water

Microsoft's operations are generally not water intensive, with the exception of some of our datacenters that rely on water for cooling. We've worked to mitigate the impacts of datacenter water use by using recycled municipal waste water in some water-scarce locations such as San Antonio, Texas.

> Of even more significance, our latest air-cooled datacenters use only 1 to 3 percent of the water required for a traditional datacenter and they produce no wastewater.

Beyond datacenters, Microsoft continues to invest in water-saving fixtures in our office buildings and smart landscape irrigation practices to conserve water.

FY13 Water Use by Source [2]

- Recycled Water Supplies (449,993)
- Rainwater (30,168)
- Groundwater (8,078)
- Municipal Supply (2,372,026)

Total 2,860,265 (cubic meters)

2 This data covers 55 percent of Microsoft's facilities by square footage. As with greenhouse gas emissions, we publicly report water through the CDP Water Project and the most recent data available reflects the previous fiscal year. Additional information and our previous years' water data are available publicly through CDP.
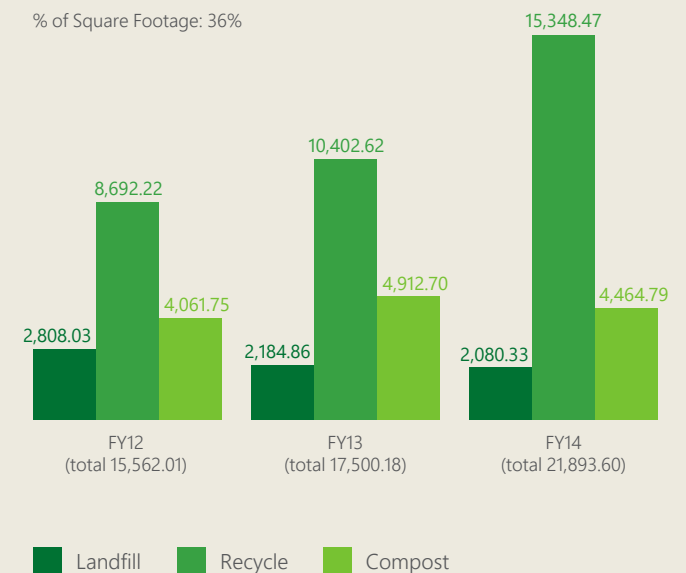
Waste

Microsoft's Real Estate and Facilities teams around the world implement waste minimization programs, including office supply reuse, recycling and, in many cases, composting programs. Among our accomplishments, we reduced, reused, or recycled 99 percent of the waste from our Redmond, Washington dining facilities by switching to compostable tableware, administering aggressive recycling programs, and adapting our menu to get the most from each item of food served.

We've also set a long-term goal of 90 percent waste diversion from landfills across our global headquarter facilities in Puget Sound, Washington, which represent approximately 36 percent of our total real estate portfolio. We're rapidly approaching that goal and are working to extend that goal to additional campuses in the United States and around the globe.

Waste Disposal Trends (metric tons)

% of Square Footage: 36%

- FY12 (total 15,562.01): 2,808.03 / 8,692.22 / 4,061.75
- FY13 (total 17,500.18): 2,184.86 / 10,402.62 / 4,912.70
- FY14 (total 21,893.60): 2,080.33 / 15,348.47 / 4,464.79

■ Landfill   ■ Recycle   ■ Compost

Our increased use of recycling and composting and lower waste to landfill is evident in the chart above, covering data from our facilities across the Puget Sound region. We are working to increase the amount of waste data we collect across other Microsoft locations to improve our waste reporting in the future.

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(7.3) Operational Impacts

As we expand our on-campus hardware device labs, we have begun to generate hazardous waste and e-waste from developing and testing proto-type devices. We have implemented a chemical management program that helps employees prevent waste generation by using less-polluting products and reduce or eliminate unused materials. When we do generate waste, we recycle whenever possible and dispose of any remainder as required by local regulations. We have also developed an auditing program to verify that any facility that handles our waste for recycling or disposal can do so responsibly and while comply-ing with environmental regulations. In FY14 we generated 1.68 metric tons of hazardous waste across our Puget Sound facilities, which was disposed of at properly permitted US hazardous waste facilities.

(7.4) Reducing Impacts Across the Life Cycle of Our Devices

Design for Green

The Safety, Compliance, and Sustainability team within the Microsoft Devices Group incorporates environmental and safety principles and processes in the design and production of our devices and product packaging.[3] The team works with design groups through a Design for Green initia-tive to evaluate and encourage the use of more environmentally benign materials, increase the recyclability of our devices and packaging, and minimize material use. The team provides a Design for Green scorecard of products in development to suggest alternative materials and other ways to address environmental impacts. We also require our suppliers to identify every material that's in our products and to follow a comprehensive list of **restricted substances specifications** to avoid hazardous materials.

To address sustainability in packaging, we've designed packaging for Xbox One, Surface, and our hardware peripherals to reduce the use of materials and replace plastics with paperboard packaging and materials from sugarcane waste. We also set standards of a minimum of 50 percent recycled content (25 percent of which must be post-consumer) for paperboard packaging and a minimum of 25 percent post-consumer content for rigid plastic packaging.

Device Take-Back and Recycling

Microsoft is committed to meeting and going beyond government standards on take-back and responsible recycling or disposal of electron-ics, batteries, and packaging. We are a member of more than 66 government-mandated recycling schemes and producer responsibility organizations worldwide. In addition, we also offer several voluntary take-back and recycling programs, including incentives to bring used electronics to Microsoft Stores for recycling. We offer a comprehensive **online tool** to help consumers understand the recycling options

3 In April 2014, Microsoft acquired the Nokia Devices and Services business, which became Microsoft Mobile Oy (MMO), and expanded our product line to include mobile phones. For this reporting year, information about MMO's environmental sustainability efforts including life-cycle analysis of MMO products are detailed in the **Nokia People and Planet Report 2013**. Our Microsoft 2015 Citizenship Report will provide data on environmental sustainability related to Microsoft's expanded range of hardware devices.

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7.4 Reducing Impacts Across the Life Cycle of Our Devices

7.5 Applying Technology to Environmental Challenges

available to them in their specific location. Where no local options exist, consumers can use the tool to contact Microsoft and we will generate a postage-paid e-label for them to use to send their equipment to a contracted recycler for free.

Microsoft also offers two programs, **Microsoft Authorized Refurbisher** (MAR) and Microsoft **Registered Refurbisher Program** (RRP), that help refurbishers extend the life of used PCs by providing them with commercial licenses for Microsoft software and non-profit organization licenses for those serving non-profits and schools. Through these programs, Microsoft and our refurbisher partners provided nonprofits and schools access to 799,930 refurbished computers in FY14.

Microsoft works to responsibly reuse, refurbish, or recycle used computers and electronics from our own operations and used personal and electronic items from our employees. For our own e-waste and the e-waste we collect from employees and customers, Microsoft requires external certification of the recycling partners that we contract with and bans any landfilling or exportation of used electronics that they collect.

As we describe in detail at **www.microsoft.com/environment**, we are collaborating with technology partners, government agencies, non-profit organizations, public policy advocacy organizations, and the scientific community to better understand, measure, and build solutions to address energy and environmental challenges.

As part of our commitment to sustainability, we seek to turn solutions to environmental challenges into business opportunities. A good example of this is Microsoft's **CityNext** initiative, which launched early in FY14.

> Through CityNext, Microsoft and our worldwide partner network seek to provide cities with services and devices to be more sustainable and economically competitive.

Cities that take advantage of Microsoft technologies and partner solutions are improving operations and reducing consumption by using software to collect and analyze both real-time and historical data from a wide range of sources, including renewable energy systems. The information can be used to cut power costs, improve forecasting, and detect impending equipment failures.

We've also worked to encourage and support the many Microsoft partners also delivering commercial solutions that increase ICT resource efficiency and developing a range of solutions on the Microsoft platform that address energy, carbon, water, and other resource challenges.

In addition, Microsoft supports environmental research that isn't tied to developing a specific product or service but rather advances the field of computing and demonstrates how cloud services and mobile devices can combine to help solve some of society's biggest environmental challenges. Microsoft Research's Earth, Energy, and Environment collaboration projects focus on the development and adoption of technologies for scientific visualization and data management—especially technologies that accelerate insight into the environmental and earth sciences.

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7.6 FY14 Highlights and FY15 Commitments

Progress Against FY14 Commitments

Goal: Achieving carbon neutrality and net-zero emissions for our datacenters, software development labs, offices, and employee air travel by increasing energy efficiency and investing in renewable energy and carbon offset projects.

We met our carbon neutrality and net-zero emissions goals in FY14 and expanded our carbon fee program for FY15.

Goal: Evolving our internal carbon fee—based on current market pricing for renewable energy and carbon offsets— and making the company's business divisions financially responsible for the cost of their carbon emissions.

Our Chief Financial Officer reviewed and expanded our carbon fee model to include funding internal carbon reduction grants.

Goal: Sourcing more renewable power and continuing to implement more sustainability in our datacenter designs.

During FY14, we purchased more than 3 billion kWh of green power, equal to 100 percent of our global electricity use. We also signed a 20-year agreement to purchase 100 percent of the output of the 110-MW Keechi Wind project, a new wind farm that will begin operating in 2015.

Goal: Extending an energy-management program to targeted US-based Microsoft facilities to decrease energy use.

We are using learnings from our Energy-Smart Buildings initiative to target energy-saving opportunities at other Microsoft facilities in the United States and around the globe.

FY15 Commitments

- Maintaining our commitment to achieving carbon neutrality and net-zero emissions for our datacenters, software development labs, offices, and employee air travel by increasing energy efficiency and investing in renewable energy and carbon offset projects.

- Establishing targets with business groups to improve operational energy efficiency.

- Building on the model of our 110-MW Keechi Wind power purchase agreement with additional large-scale commitments to purchase renewable energy.

- Meeting our 100 percent renewable energy commitment by matching the total amount of kwh consumed with the equivalent volume of renewable energy purchased.

- Expanding our global data collection and reporting of waste and water data.

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8.1   Scope and Standards

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8.1 Scope and Standards

Scope

Unless otherwise stated, information in this report covers all of Microsoft's global operations during our fiscal year 2014 (July 1, 2013 to June 30, 2014). In April 2014, Microsoft acquired the Nokia Devices and Services business, which became Microsoft Mobile Oy (MMO). We will fully reflect MMO-related data in our Microsoft 2015 Citizenship Report. For the current reporting year, information about MMO's citizenship-related policies and performance remain detailed separately in the **Nokia People and Planet Report 2013**.

Standards

This report contains Standard Disclosures from the Global Reporting Initiative's G4 Sustainability Reporting Guidelines, which we used to prepare this report. Please see our **online GRI G4 Index** for detailed data and additional information. This report also serves as Microsoft's annual Communication on Progress under the United Nations (UN) Global Compact. The following table describes the location of relevant report content for each of the UN Global Compact's 10 principles.

UN Global Compact Index

Human Rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	Our People, Human Rights, Responsible Sourcing
Principle 2: make sure they are not complicit in human rights abuses.	Our People, Human Rights, Responsible Sourcing

Labor	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Our People, Responsible Sourcing
Principle 4: the elimination of all forms of forced and compulsory labor;	Our People, Responsible Sourcing
Principle 5: the effective abolition of child labor; and	Our People, Responsible Sourcing
Principle 6: the elimination of discrimination in respect of employment and occupation.	Our People, Responsible Sourcing

Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	Environmental Sustainability
Principle 8: undertake initiatives to promote greater environmental responsibility; and	Environmental Sustainability, Responsible Sourcing
Principle 9: encourage the development and diffusion of environmentally friendly technologies.	Environmental Sustainability

Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	Responsible Sourcing, Ethical Business Conduct and Governance

Microsoft