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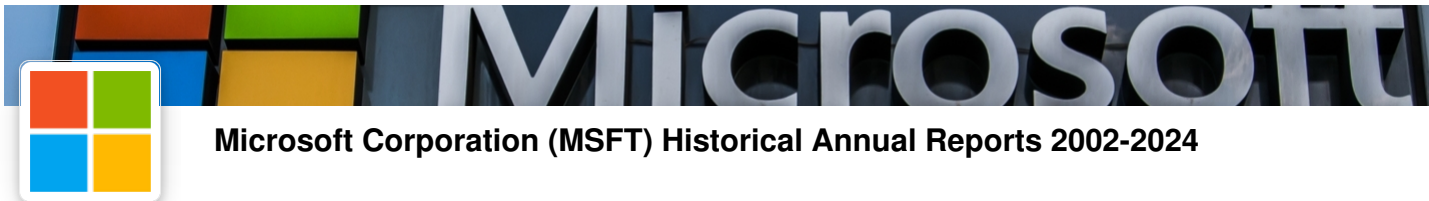
## **Microsoft Corporation Annual Report 2022**

**Form 10-K (NASDAQ:MSFT)**























Published: July 28th, 2022

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2003	 <a href="#">Microsoft Corporation (MSFT) 10-K Annual Report - Sep 5th, 2003</a>	368kb
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Fiscal Year Ended June 30, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-37845

**MICROSOFT CORPORATION**

WASHINGTON  
(STATE OF INCORPORATION)

91-1144442  
(I.R.S. ID)

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399  
(425) 882-8080

[www.microsoft.com/investor](http://www.microsoft.com/investor)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
<b>Common stock, \$0.00000625 par value per share</b>	<b>MSFT</b>	<b>NASDAQ</b>
<b>3.125% Notes due 2028</b>	<b>MSFT</b>	<b>NASDAQ</b>
<b>2.625% Notes due 2033</b>	<b>MSFT</b>	<b>NASDAQ</b>

Securities registered pursuant to Section 12(g) of the Act:

**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒

Non-accelerated Filer ☐

Accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of December 31, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2.5 trillion based on the closing sale price as reported on the NASDAQ National Market System. As of July 25, 2022, there were 7,457,891,872 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on December 13, 2022 are incorporated by reference into Part III.

**MICROSOFT CORPORATION**  
**FORM 10-K**  
**For the Fiscal Year Ended June 30, 2022**  
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## Note About Forward-Looking Statements

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: “Business” (Part I, Item 1 of this Form 10-K), “Risk Factors” (Part I, Item 1A of this Form 10-K), and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (Part II, Item 7 of this Form 10-K). These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7A of this Form 10-K). Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

## PART I

### ITEM 1. BUSINESS

#### GENERAL

#### **Embracing Our Future**

Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more. We strive to create local opportunity, growth, and impact in every country around the world. Our platforms and tools help drive small business productivity, large business competitiveness, and public-sector efficiency. We are creating the tools and platforms that deliver better, faster, and more effective solutions to support new startups, improve educational and health outcomes, and empower human ingenuity.

Microsoft is innovating and expanding our entire portfolio to help people and organizations overcome today’s challenges and emerge stronger. We bring technology and products together into experiences and solutions that unlock value for our customers.

In a dynamic environment, digital technology is the key input that powers the world’s economic output. Our ecosystem of customers and partners have learned that while hybrid work is complex, embracing flexibility, different work styles, and a culture of trust can help navigate the challenges the world faces today. Organizations of all sizes have digitized business-critical functions, redefining what they can expect from their business applications. Customers are looking to unlock value while simplifying security and management. From infrastructure and data, to business applications and collaboration, we provide unique, differentiated value to customers.

We are building a distributed computing fabric – across cloud and the edge – to help every organization build, run, and manage mission-critical workloads anywhere. In the next phase of innovation, artificial intelligence (“AI”) capabilities are rapidly advancing, fueled by data and knowledge of the world. We are enabling metaverse experiences at all layers of our stack, so customers can more effectively model, automate, simulate, and predict changes within their industrial environments, feel a greater sense of presence in the new world of hybrid work, and create custom immersive worlds to enable new opportunities for connection and experimentation.

#### **What We Offer**

Founded in 1975, we develop and support software, services, devices, and solutions that deliver new value for customers and help people and businesses realize their full potential.

We offer an array of services, including cloud-based solutions that provide customers with software, services, platforms, and content, and we provide solution support and consulting services. We also deliver relevant online advertising to a global audience.

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Our products include operating systems, cross-device productivity and collaboration applications, server applications, business solution applications, desktop and server management tools, software development tools, and video games. We also design and sell devices, including PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories.

### **The Ambitions That Drive Us**

To achieve our vision, our research and development efforts focus on three interconnected ambitions:

- Reinvent productivity and business processes.
- Build the intelligent cloud and intelligent edge platform.
- Create more personal computing.

#### ***Reinvent Productivity and Business Processes***

At Microsoft, we provide technology and resources to help our customers create a secure hybrid work environment. Our family of products plays a key role in the ways the world works, learns, and connects.

Our growth depends on securely delivering continuous innovation and advancing our leading productivity and collaboration tools and services, including Office 365, Dynamics 365, and LinkedIn. Microsoft 365 brings together Office 365, Windows, and Enterprise Mobility + Security to help organizations empower their employees with AI-backed tools that unlock creativity, increase collaboration, and fuel innovation, all the while enabling compliance coverage and data protection. Microsoft Teams is a comprehensive platform for work, with meetings, calls, chat, collaboration, and business process automation. Microsoft Viva is an employee experience platform that brings together communications, knowledge, learning, resources, and insights powered by Microsoft 365. Together with the Microsoft Cloud, Dynamics 365, Microsoft Teams, and Azure Synapse bring a new era of collaborative applications that transform every business function and process. Microsoft Power Platform is helping domain experts drive productivity gains with low-code/no-code tools, robotic process automation, virtual agents, and business intelligence. In a dynamic labor market, LinkedIn is helping professionals use the platform to connect, learn, grow, and get hired.

#### ***Build the Intelligent Cloud and Intelligent Edge Platform***

As digital transformation accelerates, organizations in every sector across the globe can address challenges that will have a fundamental impact on their success. For enterprises, digital technology empowers employees, optimizes operations, engages customers, and in some cases, changes the very core of products and services. Microsoft has a proven track record of delivering high value to our customers across many diverse and durable growth markets.

We continue to invest in high performance and sustainable computing to meet the growing demand for fast access to Microsoft services provided by our network of cloud computing infrastructure and datacenters. Azure is a trusted cloud with comprehensive compliance coverage and AI-based security built in.

Our cloud business benefits from three economies of scale: datacenters that deploy computational resources at significantly lower cost per unit than smaller ones; datacenters that coordinate and aggregate diverse customer, geographic, and application demand patterns, improving the utilization of computing, storage, and network resources; and multi-tenancy locations that lower application maintenance labor costs.

The Microsoft Cloud is the most comprehensive and trusted cloud, providing the best integration across the technology stack while offering openness, improving time to value, reducing costs, and increasing agility. Being a global-scale cloud, Azure uniquely offers hybrid consistency, developer productivity, AI capabilities, and trusted security and compliance. We see more emerging use cases and needs for compute and security at the edge and are accelerating our innovation across the spectrum of intelligent edge devices, from Internet of Things (“IoT”) sensors to gateway devices and edge hardware to build, manage, and secure edge workloads. With Azure Stack, organizations can extend Azure into their own datacenters to create a consistent stack across the public cloud and the intelligent edge.

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Our hybrid infrastructure consistency spans security, compliance, identity, and management, helping to support the real-world needs and evolving regulatory requirements of commercial customers and enterprises. Our industry clouds bring together capabilities across the entire Microsoft Cloud, along with industry-specific customizations, to improve time to value, increase agility, and lower costs. Azure Arc simplifies governance and management by delivering a consistent multi-cloud and on-premises management platform. Security, compliance, identity, and management underlie our entire tech stack. We offer integrated, end-to-end capabilities to protect people and organizations.

In March 2022, we completed our acquisition of Nuance Communications, Inc. ("Nuance"). Together, Microsoft and Nuance will enable organizations across industries to accelerate their business goals with security-focused, cloud-based solutions infused with powerful, vertically optimized AI.

We are accelerating our development of mixed reality solutions with new Azure services and devices. Microsoft Mesh enables presence and shared experiences from anywhere through mixed reality applications. The opportunity to merge the physical and digital worlds, when combined with the power of Azure cloud services, unlocks new workloads and experiences to create common understanding and drive more informed decisions.

The ability to convert data into AI drives our competitive advantage. Azure SQL Database makes it possible for customers to take SQL Server from their on-premises datacenter to a fully managed instance in the cloud to utilize built-in AI. Azure Synapse brings together data integration, enterprise data warehousing, and big data analytics in a comprehensive solution. We are accelerating adoption of AI innovations from research to products. Our innovation helps every developer be an AI developer, with approachable new tools from Azure Machine Learning Studio for creating simple machine learning models, to the powerful Azure Machine Learning Workbench for the most advanced AI modeling and data science. From GitHub to Visual Studio, we provide a developer tool chain for everyone, no matter the technical experience, across all platforms, whether Azure, Windows, or any other cloud or client platform.

Additionally, we are extending our infrastructure beyond the planet, bringing cloud computing to space. Azure Orbital is a fully managed ground station as a service for fast downlinking of data.

### ***Create More Personal Computing***

We strive to make computing more personal by putting people at the core of the experience, enabling them to interact with technology in more intuitive, engaging, and dynamic ways. Microsoft 365 is empowering people and organizations to be productive and secure as they adapt to more fluid ways of working, learning, and playing. Windows also plays a critical role in fueling our cloud business with Windows 365, a desktop operating system that's also a cloud service. From another internet-connected device, including Android or macOS devices, you can run Windows 365, just like a virtual machine.

With Windows 11, we have simplified the design and experience to empower productivity and inspire creativity. Windows 11 offers innovations focused on enhancing productivity and is designed to support hybrid work. It adds new experiences that include powerful task switching tools like new snap layouts, snap groups, and desktops; new ways to stay connected through Microsoft Teams chat; the information you want at your fingertips; and more. Windows 11 security and privacy features include operating system security, application security, and user and identity security.

Tools like search, news, and maps have given us immediate access to the world's information. Today, through our Search, News, Mapping, and Browse services, Microsoft delivers unique trust, privacy, and safety features. Microsoft Edge is our fast and secure browser that helps protect your data, with built-in shopping tools designed to save you time and money. Organizational tools such as Collections, Vertical Tabs, and Immersive Reader help make the most of your time while browsing, streaming, searching, and sharing.

We are committed to designing and marketing first-party devices to help drive innovation, create new device categories, and stimulate demand in the Windows ecosystem. The Surface family includes Surface Laptop Studio, Surface Laptop 4, Surface Laptop Go 2, Surface Laptop Pro 8, Surface Pro X, Surface Go 3, Surface Studio 2, and Surface Duo 2.

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With three billion people actively playing games today, and a new generation steeped in interactive entertainment, Microsoft continues to invest in content, community, and cloud services. We have broadened our approach to how we think about gaming end-to-end, from the way games are created and distributed to how they are played, including cloud gaming so players can stream across PC, console, and mobile. We have a strong position with our large and growing highly engaged community of gamers, including the acquisition of ZeniMax Media Inc., the parent company of Bethesda Softworks LLC. In January 2022, we announced plans to acquire Activision Blizzard, Inc., a leader in game development and an interactive entertainment content publisher. Xbox Game Pass is a community with access to a curated library of over 100 first- and third-party console and PC titles. Xbox Cloud Gaming is Microsoft's game streaming technology that is complementary to our console hardware and gives fans the ultimate choice to play the games they want, with the people they want, on the devices they want.

### ***Our Future Opportunity***

The case for digital transformation has never been more urgent. Customers are looking to us to help improve productivity and the affordability of their products and services. We continue to develop complete, intelligent solutions for our customers that empower people to stay productive and collaborate, while safeguarding businesses and simplifying IT management. Our goal is to lead the industry in several distinct areas of technology over the long term, which we expect will translate to sustained growth. We are investing significant resources in:

- Transforming the workplace to deliver new modern, modular business applications, drive deeper insights, and improve how people communicate, collaborate, learn, work, play, and interact with one another.
- Building and running cloud-based services in ways that unleash new experiences and opportunities for businesses and individuals.
- Applying AI to drive insights and act on our customer's behalf by understanding and interpreting their needs using natural methods of communication.
- Tackling security from all angles with our integrated, end-to-end solutions spanning security, compliance, identity, and management, across all clouds and platforms.
- Inventing new gaming experiences that bring people together around their shared love for games on any devices and pushing the boundaries of innovation with console and PC gaming by creating the next wave of entertainment.
- Using Windows to fuel our cloud business, grow our share of the PC market, and drive increased engagement with our services like Microsoft 365 Consumer, Teams, Edge, Bing, Xbox Game Pass, and more.

Our future growth depends on our ability to transcend current product category definitions, business models, and sales motions. We have the opportunity to redefine what customers and partners can expect and are working to deliver new solutions that reflect the best of Microsoft.

### **Corporate Social Responsibility**

#### ***Commitment to Sustainability***

We work to ensure that technology is inclusive, trusted, and increases sustainability. We are accelerating progress toward a more sustainable future by reducing our environmental footprint, advancing research, helping our customers build sustainable solutions, and advocating for policies that benefit the environment. In January 2020, we announced a bold commitment and detailed plan to be carbon negative by 2030, and to remove from the environment by 2050 all the carbon we have emitted since our founding in 1975. This included a commitment to invest \$1 billion over four years in new technologies and innovative climate solutions. We built on this pledge by adding commitments to be water positive by 2030, zero waste by 2030, and to protect ecosystems by developing a Planetary Computer. We also help our suppliers and customers around the world use Microsoft technology to reduce their own carbon footprint.

Fiscal year 2021 was a year of both successes and challenges. While we continued to make progress on several of our goals, with an overall reduction in our combined Scope 1 and Scope 2 emissions, our Scope 3 emissions increased, due in substantial part to significant global datacenter expansions and growth in Xbox sales and usage as a result of the COVID-19 pandemic. Despite these Scope 3 increases, we will continue to build the foundations and do the work to deliver on our commitments, and help our customers and partners achieve theirs. We have learned the impact of our work will not all be felt immediately, and our experience highlights how progress won't always be linear.

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While fiscal year 2021 presented us with some new learnings, we also made some great progress. A few examples that illuminate the diversity of our work include:

- We purchased the removal of 1.4 million metrics tons of carbon.
- Four of our datacenters received new or renewed Zero Waste certifications.
- We granted \$100 million to Breakthrough Energy Catalyst to accelerate the development of climate solutions the world needs to reach net-zero across four key areas: direct air capture, green hydrogen, long duration energy storage, and sustainable aviation fuel.
- We joined the First Movers Coalition as an early leader and expert partner in the carbon dioxide removal sector, with a commitment of \$200 million toward carbon removal by 2030.

Sustainability is an existential priority for our society and businesses today. This led us to create our Microsoft Cloud for Sustainability, an entirely new business process category to help organizations monitor their carbon footprint across their operations. We also joined with leading organizations to launch the Carbon Call – an initiative to mobilize collective action to solve carbon emissions and removal accounting challenges for a net zero future.

The investments we make in sustainability carry through to our products, services, and devices. We design our devices, from Surface to Xbox, to minimize their impact on the environment. Our cloud and AI services and datacenters help businesses cut energy consumption, reduce physical footprints, and design sustainable products.

### ***Addressing Racial Injustice and Inequity***

We are committed to addressing racial injustice and inequity in the United States for Black and African American communities and helping improve lived experiences at Microsoft, in employees' communities, and beyond. Our Racial Equity Initiative focuses on three multi-year pillars, each containing actions and progress we expect to make or exceed by 2025.

- Strengthening our communities: using data, technology, and partnerships to help improve the lives of Black and African American people in the United States, including our employees and their communities.
- Evolving our ecosystem: using our balance sheet and relationships with suppliers and partners to foster societal change and create new opportunities.
- Increasing representation and strengthening inclusion: build on our momentum, adding a \$150 million investment to strengthen inclusion and double the number of Black, African American, Hispanic, and Latinx leaders in the United States by 2025.

Over the last year, we collaborated with partners and worked within neighborhoods and communities to launch and scale a number of projects and programs, including: working with 70 organizations in 145 communities on the Justice Reform Initiative, expanding access to affordable broadband and devices for Black and African American communities and key institutions that support them in major urban centers, expanding access to skills and education to support Black and African American students and adults to succeed in the digital economy, and increasing technology support for nonprofits that provide critical services to Black and African American communities.

We have made meaningful progress on representation and inclusion at Microsoft. We are 90 percent of the way to our 2025 commitment to double the number of Black and African American people managers, senior individual contributors, and senior leaders in the U.S., and 50 percent of the way for Hispanic and Latinx people managers, senior individual contributors, and senior leaders in the U.S.

We exceeded our goal on increasing the percentage of transaction volumes with Black- and African American-owned financial institutions and increased our deposits with Black- and African American-owned minority depository institutions, enabling increased funds into local communities. Additionally, we enriched our supplier pipeline, reaching more than 90 percent of our goal to spend \$500 million with double the number of Black and African American-owned suppliers. We also increased the number of identified partners in the Black Partner Growth Initiative and continue to invest in the partner community through the Black Channel Partner Alliance by supporting events focused on business growth, accelerators, and mentorship.

Progress does not undo the egregious injustices of the past or diminish those who continue to live with inequity. We are committed to leveraging our resources to help accelerate diversity and inclusion across our ecosystem and to hold ourselves accountable to accelerate change – for Microsoft, and beyond.

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### ***Investing in Digital Skills***

The COVID-19 pandemic led to record unemployment, disrupting livelihoods of people around the world. After helping over 30 million people in 249 countries and territories with our global skills initiative, we introduced a new initiative to support a more skills-based labor market, with greater flexibility and accessible learning paths to develop the right skills needed for the most in-demand jobs. Our skills initiative brings together learning resources, certification opportunities, and job-seeker tools from LinkedIn, GitHub, and Microsoft Learn, and is built on data insights drawn from LinkedIn's Economic Graph. We previously invested \$20 million in key non-profit partnerships through Microsoft Philanthropies to help people from underserved communities that are often excluded by the digital economy.

We also launched a national campaign with U.S. community colleges to help skill and recruit into the cybersecurity workforce 250,000 people by 2025, representing half of the country's workforce shortage. To that end, we are making curriculum available free of charge to all of the nation's public community colleges, providing training for new and existing faculty at 150 community colleges, and providing scholarships and supplemental resources to 25,000 students.

## **HUMAN CAPITAL RESOURCES**

### **Overview**

Microsoft aims to recruit, develop, and retain world-changing talent from a diversity of backgrounds. To foster their and our success, we seek to create an environment where people can thrive, where they can do their best work, where they can proudly be their authentic selves, guided by our values, and where they know their needs can be met. We strive to maximize the potential of our human capital resources by creating a respectful, rewarding, and inclusive work environment that enables our global employees to create products and services that further our mission to empower every person and every organization on the planet to achieve more.

As of June 30, 2022, we employed approximately 221,000 people on a full-time basis, 122,000 in the U.S. and 99,000 internationally. Of the total employed people, 85,000 were in operations, including manufacturing, distribution, product support, and consulting services; 73,000 were in product research and development; 47,000 were in sales and marketing; and 16,000 were in general and administration. Certain employees are subject to collective bargaining agreements.

### **Our Culture**

Microsoft's culture is grounded in the growth mindset. This means everyone is on a continuous journey to learn and grow. We believe potential can be nurtured and is not pre-determined, and we should always be learning and curious – trying new things without fear of failure. We identified four attributes that allow growth mindset to flourish:

- Obsessing over what matters to our customers.
- Becoming more diverse and inclusive in everything we do.
- Operating as one company, One Microsoft, instead of multiple siloed businesses.
- Making a difference in the lives of each other, our customers, and the world around us.

Our employee listening systems enable us to gather feedback directly from our workforce to inform our programs and employee needs globally. Seventy percent of employees globally participated in our fiscal year 2022 Employee Signals survey, which covers a variety of topics such as thriving, inclusion, team culture, wellbeing, and learning and development. Throughout the fiscal year, we collect over 75,000 Daily Pulse employee survey responses. During fiscal year 2022, our Daily Pulse surveys gave us invaluable insights into ways we could support employees through the COVID-19 pandemic, addressing racial injustice, the war in Ukraine, and their general wellbeing. In addition to Employee Signals and Daily Pulse surveys, we gain insights through onboarding, internal mobility, leadership, performance and development, exit surveys, internal Yammer channels, employee Q&A sessions, and AskHR Service support.

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## Diversity and Inclusion

At Microsoft we have an inherently inclusive mission: to empower every person and every organization on the planet to achieve more. We think of diversity and inclusion as core to our business model, informing our actions to impact economies and people around the world. There are billions of people who want to achieve more, but have a different set of circumstances, abilities, and backgrounds that often limit access to opportunity and achievement. The better we represent that diversity inside Microsoft, the more effectively we can innovate for those we seek to empower.

We strive to include others by holding ourselves accountable for diversity, driving global systemic change in our workplace and workforce, and creating an inclusive work environment. Through this commitment we can allow everyone the chance to be their authentic selves and do their best work every day. We support multiple highly active Employee Resource Groups for women, families, racial and ethnic minorities, military, people with disabilities, and employees who identify as LGBTQIA+, where employees can go for support, networking, and community-building. As described in our 2021 Proxy Statement, annual performance and compensation reviews of our senior leadership team include an evaluation of their contributions to employee culture and diversity. To ensure accountability over time, we publicly disclose our progress on a multitude of workforce metrics including:

- Detailed breakdowns of gender, racial, and ethnic minority representation in our employee population, with data by job types, levels, and segments of our business.
- Our EEO-1 report (equal employment opportunity).
- Disability representation.
- Pay equity (see details below).

## Total Rewards

We develop dynamic, sustainable, market-driven, and strategic programs with the goal of providing a highly differentiated portfolio to attract, reward, and retain top talent and enable our employees to thrive. These programs reinforce our culture and values such as collaboration and growth mindset. Managers evaluate and recommend rewards based on, for example, how well we leverage the work of others and contribute to the success of our colleagues. We monitor pay equity and career progress across multiple dimensions.

As part of our effort to promote a One Microsoft and inclusive culture, in fiscal year 2021 we expanded stock eligibility to all Microsoft employees as part of our annual rewards process. This includes all non-exempt and exempt employees and equivalents across the globe including business support professionals and datacenter and retail employees. In response to the Great Reshuffle, in fiscal year 2022 we announced a sizable investment in annual merit and annual stock award opportunity for all employees below senior executive levels. We also invested in base salary adjustments for our datacenter and retail hourly employees and hourly equivalents outside the U.S. These investments have supported retention and help to ensure that Microsoft remains an employer of choice.

## Pay Equity

In our 2021 Diversity and Inclusion Report, we reported that all racial and ethnic minority employees in the U.S. combined earn \$1.006 for every \$1.000 earned by their white counterparts, that women in the U.S. earn \$1.002 for every \$1.000 earned by their counterparts in the U.S. who are men, and women in the U.S. plus our twelve other largest employee geographies representing 86.6% of our global population (Australia, Canada, China, France, Germany, India, Ireland, Israel, Japan, Romania, Singapore, and the United Kingdom) combined earn \$1.001 for every \$1.000 by men in these countries. Our intended result is a global performance and development approach that fosters our culture, and competitive compensation that ensures equitable pay by role while supporting pay for performance.

## Wellness and Safety

Microsoft is committed to supporting our employees' well-being and safety while they are at work and in their personal lives.

We took a wide variety of measures to protect the health and well-being of our employees, suppliers, and customers during the COVID-19 pandemic and are now supporting employees in shifting to return to office and/or hybrid arrangements. We developed hybrid guidelines for managers and employees to support the transition and continue to identify ways we can support hybrid work scenarios through our employee listening systems.

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We have invested significantly in holistic wellbeing, and offer a differentiated benefits package which includes many physical, emotional, and financial wellness programs including counseling through the Microsoft CARES Employee Assistance Program, mental wellbeing support, flexible fitness benefits, savings and investment tools, adoption assistance, and back-up care for children and elders. Finally, our Occupational Health and Safety program helps ensure employees can stay safe while they are working.

We continue to strive to support our Ukrainian employees and their dependents during the Ukraine crisis with emergency relocation assistance, emergency leave, and other benefits.

### **Learning and Development**

Our growth mindset culture begins with valuing learning over knowing – seeking out new ideas, driving innovation, embracing challenges, learning from failure, and improving over time. To support this culture, we offer a wide range of learning and development opportunities. We believe learning can be more than formal instruction, and our learning philosophy focuses on providing the right learning, at the right time, in the right way. Opportunities include:

- Personalized, integrated, and relevant views of all learning opportunities on both our internal learning portal Learning (Viva Learning + LinkedIn Learning) and our external learning portal MS Learn are available to all employees worldwide.
- In-the-classroom learning, learning cohorts, our early-in-career Aspire program, and manager excellence communities.
- Required learning for all employees and managers on topics such as compliance, regulation, company culture, leadership, and management. This includes the annual Standards of Business Conduct training.
- On-the-job “stretch” and advancement opportunities.
- Managers holding conversations about employees’ career and development plans, coaching on career opportunities, and programs like mentoring and sponsorship.
- Customized manager learning to build people manager capabilities and similar learning solutions to build leadership skills for all employees including differentiated leadership development programs.
- New employee orientation covering a range of topics including company values, and culture, as well as ongoing onboarding programs.
- New tools to assist managers and employees in learning how to operate, be productive, and connect in the new flexible hybrid world of work. These include quick guides for teams to use, such as Creating Team Agreements, Reconnecting as a Team, and Running Effective Hybrid Meetings.

Our employees embrace the growth mindset and take advantage of the formal learning opportunities as well as thousands of informal and on-the-job learning opportunities. In terms of formal on-line learning solutions, in fiscal year 2022 our employees completed over 4.7 million courses, averaging over 14 hours per employee. Given our focus on understanding core company beliefs and compliance topics, all employees complete required learning programs like Standards of Business Conduct, Privacy, Unconscious Bias, and preventing harassment courses. Our corporate learning portal has over 100,000 average monthly active users. We have over 27,000 people managers, all of whom must complete between 20-33 hours of required manager capability and excellence training and are assigned ongoing required training each year. In addition, all employees complete skills training based on the profession they are in each year.

### **New Ways of Working**

The COVID-19 pandemic accelerated our capabilities and culture with respect to flexible work. We introduced a Hybrid Workplace Flexibility Guide to better support managers and employees as they adapt to new ways of working that shift paradigms, embrace flexibility, promote inclusion, and drive innovation. Our ongoing survey data shows employees value the flexibility related to work location, work site, and work hours, and while many have begun returning to worksites as conditions have permitted, they also continue to adjust hours and/or spend some of workweeks working at home, another site, or remotely. We are focused on building capabilities to support a variety of workstyles where individuals, teams, and our business can deliver success.

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## OPERATING SEGMENTS

We operate our business and report our financial performance using three segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. Our segments provide management with a comprehensive financial view of our key businesses. The segments enable the alignment of strategies and objectives across the development, sales, marketing, and services organizations, and they provide a framework for timely and rational allocation of resources within businesses.

Additional information on our operating segments and geographic and product information is contained in Note 19 – Segment Information and Geographic Data of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).

Our reportable segments are described below.

### **Productivity and Business Processes**

Our Productivity and Business Processes segment consists of products and services in our portfolio of productivity, communication, and information services, spanning a variety of devices and platforms. This segment primarily comprises:

- Office Commercial (Office 365 subscriptions, the Office 365 portion of Microsoft 365 Commercial subscriptions, and Office licensed on-premises), comprising Office, Exchange, SharePoint, Microsoft Teams, Office 365 Security and Compliance, and Microsoft Viva.
- Office Consumer, including Microsoft 365 Consumer subscriptions, Office licensed on-premises, and other Office services.
- LinkedIn, including Talent Solutions, Marketing Solutions, Premium Subscriptions, and Sales Solutions.
- Dynamics business solutions, including Dynamics 365, comprising a set of intelligent, cloud-based applications across ERP, CRM, Customer Insights, Power Apps, and Power Automate; and on-premises ERP and CRM applications.

#### ***Office Commercial***

Office Commercial is designed to increase personal, team, and organizational productivity through a range of products and services. Growth depends on our ability to reach new users in new markets such as frontline workers, small and medium businesses, and growth markets, as well as add value to our core product and service offerings to span productivity categories such as communication, collaboration, analytics, security, and compliance. Office Commercial revenue is mainly affected by a combination of continued installed base growth and average revenue per user expansion, as well as the continued shift from Office licensed on-premises to Office 365.

#### ***Office Consumer***

Office Consumer is designed to increase personal productivity through a range of products and services. Growth depends on our ability to reach new users, add value to our core product set, and continue to expand our product and service offerings into new markets. Office Consumer revenue is mainly affected by the percentage of customers that buy Office with their new devices and the continued shift from Office licensed on-premises to Microsoft 365 Consumer subscriptions. Office Consumer Services revenue is mainly affected by the demand for communication and storage through Skype, Outlook.com, and OneDrive, which is largely driven by subscriptions, advertising, and the sale of minutes.

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## **LinkedIn**

LinkedIn connects the world's professionals to make them more productive and successful and transforms the way companies hire, market, sell, and learn. Our vision is to create economic opportunity for every member of the global workforce through the ongoing development of the world's first Economic Graph, a digital representation of the global economy. In addition to LinkedIn's free services, LinkedIn offers monetized solutions: Talent Solutions, Marketing Solutions, Premium Subscriptions, and Sales Solutions. Talent Solutions provide insights for workforce planning and tools to hire, nurture, and develop talent. Talent Solutions also includes Learning Solutions, which help businesses close critical skills gaps in times where companies are having to do more with existing talent. Marketing Solutions help companies reach, engage, and convert their audiences at scale. Premium Subscriptions enables professionals to manage their professional identity, grow their network, and connect with talent through additional services like premium search. Sales Solutions help companies strengthen customer relationships, empower teams with digital selling tools, and acquire new opportunities. LinkedIn has over 850 million members and has offices around the globe. Growth will depend on our ability to increase the number of LinkedIn members and our ability to continue offering services that provide value for our members and increase their engagement. LinkedIn revenue is mainly affected by demand from enterprises and professional organizations for subscriptions to Talent Solutions, Sales Solutions, and Premium Subscriptions offerings, as well as member engagement and the quality of the sponsored content delivered to those members to drive Marketing Solutions.

## **Dynamics**

Dynamics provides cloud-based and on-premises business solutions for financial management, enterprise resource planning ("ERP"), customer relationship management ("CRM"), supply chain management, and other application development platforms for small and medium businesses, large organizations, and divisions of global enterprises. Dynamics revenue is driven by the number of users licensed and applications consumed, expansion of average revenue per user, and the continued shift to Dynamics 365, a unified set of cloud-based intelligent business applications, including Power Apps and Power Automate.

## **Competition**

Competitors to Office include software and global application vendors, such as Apple, Cisco Systems, Meta, Google, IBM, Okta, Proofpoint, Slack, Symantec, Zoom, and numerous web-based and mobile application competitors as well as local application developers. Apple distributes versions of its pre-installed application software, such as email and calendar products, through its PCs, tablets, and phones. Cisco Systems is using its position in enterprise communications equipment to grow its unified communications business. Google provides a hosted messaging and productivity suite. Slack provides teamwork and collaboration software. Zoom offers videoconferencing and cloud phone solutions. Okta, Proofpoint, and Symantec provide security solutions across email security, information protection, identity, and governance. Web-based offerings competing with individual applications have also positioned themselves as alternatives to our products and services. We compete by providing powerful, flexible, secure, integrated industry-specific, and easy-to-use productivity and collaboration tools and services that create comprehensive solutions and work well with technologies our customers already have both on-premises or in the cloud.

LinkedIn faces competition from online professional networks, recruiting companies, talent management companies, and larger companies that are focusing on talent management and human resource services; job boards; traditional recruiting firms; and companies that provide learning and development products and services. Marketing Solutions competes with online and offline outlets that generate revenue from advertisers and marketers, and Sales Solutions competes with online and offline outlets for companies with lead generation and customer intelligence and insights.

Dynamics competes with cloud-based and on-premises business solution providers such as Oracle, Salesforce, and SAP.

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## **Intelligent Cloud**

Our Intelligent Cloud segment consists of our public, private, and hybrid server products and cloud services that can power modern business and developers. This segment primarily comprises:

- Server products and cloud services, including Azure and other cloud services; SQL Server, Windows Server, Visual Studio, System Center, and related Client Access Licenses ("CALs"); and Nuance and GitHub.
- Enterprise Services, including Enterprise Support Services, Microsoft Consulting Services, and Nuance professional services.

### ***Server Products and Cloud Services***

Azure is a comprehensive set of cloud services that offer developers, IT professionals, and enterprises freedom to build, deploy, and manage applications on any platform or device. Customers can use Azure through our global network of datacenters for computing, networking, storage, mobile and web application services, AI, IoT, cognitive services, and machine learning. Azure enables customers to devote more resources to development and use of applications that benefit their organizations, rather than managing on-premises hardware and software. Azure revenue is mainly affected by infrastructure-as-a-service and platform-as-a-service consumption-based services, and per user-based services such as Enterprise Mobility + Security.

Our server products are designed to make IT professionals, developers, and their systems more productive and efficient. Server software is integrated server infrastructure and middleware designed to support software applications built on the Windows Server operating system. This includes the server platform, database, business intelligence, storage, management and operations, virtualization, service-oriented architecture platform, security, and identity software. We also license standalone and software development lifecycle tools for software architects, developers, testers, and project managers. GitHub provides a collaboration platform and code hosting service for developers. Server products revenue is mainly affected by purchases through volume licensing programs, licenses sold to original equipment manufacturers ("OEM"), and retail packaged products. CALs provide access rights to certain server products, including SQL Server and Windows Server, and revenue is reported along with the associated server product.

Nuance and GitHub include both cloud and on-premises offerings. Nuance provides healthcare and enterprise AI solutions. GitHub provides a collaboration platform and code hosting service for developers.

### ***Enterprise Services***

Enterprise Services, including Enterprise Support Services, Microsoft Consulting Services, and Nuance Professional Services, assist customers in developing, deploying, and managing Microsoft server solutions, Microsoft desktop solutions, and Nuance conversational AI and ambient intelligent solutions, along with providing training and certification to developers and IT professionals on various Microsoft products.

### ***Competition***

Azure faces diverse competition from companies such as Amazon, Google, IBM, Oracle, VMware, and open source offerings. Our Enterprise Mobility + Security offerings also compete with products from a range of competitors including identity vendors, security solution vendors, and numerous other security point solution vendors. Azure's competitive advantage includes enabling a hybrid cloud, allowing deployment of existing datacenters with our public cloud into a single, cohesive infrastructure, and the ability to run at a scale that meets the needs of businesses of all sizes and complexities. We believe our cloud's global scale, coupled with our broad portfolio of identity and security solutions, allows us to effectively solve complex cybersecurity challenges for our customers and differentiates us from the competition.

Our server products face competition from a wide variety of server operating systems and applications offered by companies with a range of market approaches. Vertically integrated computer manufacturers such as Hewlett-Packard, IBM, and Oracle offer their own versions of the Unix operating system preinstalled on server hardware. Nearly all computer manufacturers offer server hardware for the Linux operating system and many contribute to Linux operating system development. The competitive position of Linux has also benefited from the large number of compatible applications now produced by many commercial and non-commercial software developers. A number of companies, such as Red Hat, supply versions of Linux.

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