

Annual Report 2023



Dear shareholders, colleagues, customers, and partners,

We are living through a time of historic challenge and opportunity. As I write this, the world faces ongoing economic, social, and geopolitical volatility. At the same time, we have entered a new age of AI that will fundamentally transform productivity for every individual, organization, and industry on earth, and help us address some of our most pressing challenges.

This next generation of AI will reshape every software category and every business, including our own. Forty-eight years after its founding, Microsoft remains a consequential company because time and time again—from PC/Server, to Web/Internet, to Cloud/Mobile—we have adapted to technological paradigm shifts. Today, we are doing so once again, as we lead this new era.

Amid this transformation, **our mission to empower every person and every organization on the planet to achieve more** remains constant. As a company, we believe we can be the democratizing force for this new generation of technology and the opportunity it will help unlock for every country, community, and individual, while mitigating its risks.

Here are just a few examples of how we are already doing this:

- Leading electronic health records vendor Epic is addressing some of the biggest challenges facing the healthcare industry today—including physician burnout—by deploying a wide range of copilot solutions built on Azure OpenAI Service and Dragon Ambient eXperience Copilot.
- Mercado Libre is reducing the time its developers spend writing code by more than 50 percent with GitHub Copilot, as the company works to democratize e-commerce across Latin America.
- Mercedes-Benz is making its in-car voice assistant more intuitive for hundreds of thousands of drivers using ChatGPT via the Azure OpenAI Service.
- Lumen Technologies is helping its employees be more productive, enabling them to focus on higher value-added activities, by deploying Microsoft 365 Copilot.
- Nonprofit The Contingent is matching foster families with children in need using Dynamics 365, Power BI, and Azure, with an eye on using AI to amplify its work across the US.
- And, Taiwan's Ministry of Education has built an online platform to help elementary and high school students learn English using Azure AI.

To build on this progress, we remain convicted on three things: First, we will maintain our lead as the top commercial cloud while innovating in consumer categories, from gaming to professional social networks. Second, because we know that maximum enterprise value gets created during platform shifts like this one, we will invest to accelerate our lead in AI by infusing this technology across every layer of the tech stack. And, finally, we will continue to drive operating leverage, aligning our cost structure with our revenue growth.

As we make progress on these priorities, we delivered strong results in fiscal year 2023, including a record \$211 billion in revenue and over \$88 billion in operating income.

A NEW ERA OF AI

There are two breakthroughs coming together to define this new era of AI. The first is the most universal interface: natural language. The long arc of computing has, in many ways, been shaped by the pursuit of increasingly intuitive human-computer interfaces—keyboards, mice, touch screens. We believe we have now arrived at the next big step forward—natural language—and will quickly go beyond, to see, hear, interpret, and make sense of our intent and the world around us.

The second is the emergence of a powerful new reasoning engine. For years, we've digitized daily life, places, and things and organized them into databases. But in a world rich with data, what has been most scarce is our ability to reason over it. This generation of AI helps us interact with data in powerful new ways—from completing or summarizing text, to detecting anomalies and recognizing images—to help us identify patterns and surface insights faster than ever.

Together, these two breakthroughs will unlock massive new opportunity. And, in fact, just last month we announced our vision for Copilot, an everyday AI companion. We are building Copilot into all our most used products and experiences and allowing people to summon its power as a standalone app as well. Just like you boot up an OS to access applications or use a browser to visit websites today, our belief is that you will invoke a Copilot to do all those activities and more: to shop, to code, to analyze, to learn, to create.

As a company, any time we approach a transition like this, we do so responsibly. We believe AI should be as empowering across communities as it is powerful, and we're committed to ensuring it is responsibly built and designed, with safety in mind from the outset.

OUR OPPORTUNITY

Every customer solution area and every layer of our tech stack will be reimaged for the AI era. And that's exactly what we've already begun to do:

Infrastructure

Four years ago, we first invested in our AI supercomputer, with a goal of building the best cloud for training and inference. Today, it's being used by our partner OpenAI to power its best-in-class foundation models and services, including one of the fastest-growing consumer apps ever—ChatGPT. NVIDIA, as well as leading AI startups like Adept and Inflection, is also using our infrastructure to build its own breakthrough models.

More broadly, organizations continue to choose our ubiquitous computing fabric—from cloud to edge—to run their mission-critical applications. We continued to see more cloud migrations to Azure this past fiscal year, as it remains early when it comes to the long-term cloud opportunity. And we also continue to lead in hybrid computing with Azure Arc, which now has 18,000 customers.

Data and AI

Every AI app starts with data, and having a comprehensive data and analytics platform is more important than ever. Our Intelligent Data Platform brings together operational databases, analytics, and governance so organizations can spend more time creating value and less time integrating their data estate. We also introduced Microsoft Fabric this year, which unifies compute, storage, and governance with a disruptive business model.

With Azure AI, we are making foundation models available as platforms to our customers. We offer the best selection of industry-leading frontier and open models. In January, we made the Azure OpenAI Service broadly available, bringing together advanced models, including ChatGPT and GPT-4, with the enterprise capabilities of Azure. More than 11,000 organizations across industries are already using it for advanced scenarios like content and code generation. Meta chose us this summer as its preferred cloud to commercialize its Llama family of models. And, with Azure AI Studio, we provide a full lifecycle toolchain customers can use to ground these models on their own data, create prompt workflows, and help ensure they are deployed and used safely.

Digital and app innovation

GitHub Copilot is fundamentally transforming developer productivity, helping developers complete coding tasks 55 percent faster. More than 27,000 organizations have chosen GitHub Copilot for Business, and to date more than 1 million people have used GitHub Copilot to code faster. We also announced our vision for the future of software development with GitHub Copilot X, which will bring the power of AI throughout the entire software development lifecycle. All up, GitHub surpassed \$1 billion in annual recurring revenue for the first time this fiscal year.

We're also applying AI across our low-code/no-code toolchain to help domain experts across an organization automate workflows, create apps and webpages, build virtual agents, or analyze data, using just natural language with copilots in Power Platform. More than 63,000 organizations have used AI-powered capabilities in Power Platform to date.

Business applications

We are bringing the next generation of AI to employees across every job function and every line of business with Dynamics 365 Copilot, which works across CRM and ERP systems to reduce burdensome tasks like manual data entry, content generation, and notetaking. In fact, our own support agents are using Copilot in Dynamics 365 Customer Service to resolve more cases faster and without having to call on peers to help. With our Supply Chain Platform, we're helping customers apply AI to predict and mitigate disruptions. And, with our new Microsoft Sales Copilot, sellers can infuse their customer interactions with data from CRM systems—including *both* Salesforce and Dynamics—to close more deals.

All up, Dynamics surpassed \$5 billion in revenue over the past fiscal year, with our customer experience, service, and finance and supply chain businesses each surpassing \$1 billion in annual sales.

Industry

Across industries, we are rapidly becoming the partner of choice for any organization looking to generate real value from AI. In healthcare, for example, we introduced the world's first fully automated clinical documentation application, DAX Copilot. The application helps physicians reduce documentation time by half, freeing them to spend more time face to face with patients. And Epic will integrate it directly into its electronic health records system.

And, in retail, we introduced new tools to help companies manage their day-to-day operations and digitize their physical stores.

Modern work

We are rapidly evolving Microsoft 365 into an AI-first platform that enables every individual to amplify their creativity and productivity, with both our established applications like Office and Teams, as well as new apps like Designer, Stream, and Loop. Microsoft 365 is designed for today's digitally connected, distributed workforce.

This year, we also introduced a new pillar of customer value with Microsoft 365 Copilot, which combines next-generation AI with business data in the Microsoft Graph and Microsoft 365 applications to help people be more productive and unleash their creativity at work. Just last month, I was excited to announce that we will make Microsoft 365 Copilot generally available to our commercial customers later this year.

We continue to build momentum in Microsoft Teams across collaboration, chat, meetings, and calls. We introduced a new version of Teams that delivers up to two times faster performance, while using 50 percent less memory. We also introduced Teams Premium to meet enterprise demand for AI-powered features like intelligent meeting recaps. All up, Teams usage surpassed 300 million monthly active users this year.

With Microsoft Viva, we have created a new category for employee experience. Copilot in Viva offers leaders a new way to build high-performance teams by prioritizing both productivity and employee engagement. This year, Viva surpassed 35 million monthly active users.

Security

As the rate and pace of cyberthreats continue to accelerate, security is a top priority for every organization. Our comprehensive, AI-powered solutions give defenders the advantage. With Security Copilot, we're combining large language models with a domain-specific model informed by our threat intelligence and 65 trillion daily security signals, to transform every aspect of security operations center productivity.

All up, more than 1 million organizations now count on our comprehensive, AI-powered solutions to protect their digital estates, and our security business surpassed \$20 billion in annual revenue, as we help protect customers across clouds and endpoint platforms.

Search, advertising, and news

We are reshaping daily search and web habits with our new Bing and Microsoft Edge browser, which brings together search, browsing, chat, and AI into one unified experience to deliver better search, more complete answers, a new chat experience, and the ability to generate content. We think of these tools as an AI copilot for the web.

We are also bringing these breakthrough capabilities to businesses, with Bing Chat Enterprise, which offers commercial data protection, providing an easy on-ramp for any organization looking to get the benefit of next-generation AI today.

Although it's early in our journey, Bing users engaged in more than 1 billion chats and created more than 750 million images over the past year as they apply these new tools to get things done. And Edge has taken share for nine consecutive quarters.

More broadly, we continue to expand our opportunity in advertising. This year, Netflix chose us as its exclusive technology and sales partner for its first ad-supported subscription offering, a validation of the differentiated value we provide to any publisher looking for a flexible partner to build and innovate with them.

LinkedIn

The excitement around AI is creating new opportunities across every function—from marketing, sales, service, and finance, to software development and security. And LinkedIn is increasingly where people are going to learn, discuss, and uplevel their skills. We are using AI to help our members and customers connect to opportunities and tap into the experiences of experts on the platform. In fact, our AI-powered articles are already the fastest-growing traffic driver to the network.

All up, LinkedIn's revenue surpassed \$15 billion for the first time this fiscal year, a testament to how mission critical the platform has become to help more than 950 million members connect, learn, sell, and get hired.

Gaming

In gaming, we are rapidly executing on our ambition to be the first choice for people to play great games whenever, wherever, and however they want. With Xbox Game Pass, we are redefining how games are distributed, played, and viewed. Content is the flywheel behind the service's growth, and our pipeline has never been stronger. It was especially energizing to release *Starfield* this fall to broad acclaim, with more than 10 million players in the first month post-launch alone.

Earlier this month, we were thrilled to close our acquisition of Activision Blizzard, and we look forward to sharing more in the coming months about how, together, we will bring the joy of gaming to more people around the world.

Devices and creativity

Finally, we're turning Windows into a powerful new AI canvas with Copilot, which rolled out as part of a Windows 11 update last month. It uniquely incorporates the context and intelligence of the web, your work data, and what you are doing in the moment on your PC to provide better assistance, while keeping your privacy and security at the forefront. Overall, the number of devices running Windows 11 more than doubled in the past year. And we are also transforming how Windows is experienced and managed with Azure Virtual Desktop and Windows 365, which together surpassed \$1 billion in annual revenue for the first time.

OUR RESPONSIBILITY

As we pursue our opportunity, we are also working to ensure technology helps us solve problems—not create new ones. To do this, we focus on four enduring commitments that are central to our mission and that take on even greater importance in this new era. For us, these commitments are more than just words. They're a guide to help us make decisions across everything we do—as we design and develop products, shape business processes and policies, help our customers thrive, build partnerships, and more—always asking ourselves critical questions to ensure our actions are aligned with them.

How can we expand opportunity?

First, we believe access to economic growth and opportunity should reach every person, organization, community, and country. And although AI can serve as a catalyst for opportunity and growth, we must first ensure everyone has access to the technologies, data, and skills they need to benefit.

To achieve this, we are focused on getting technology into the hands of nonprofits, social entrepreneurs, and other civil society organizations to help them digitally transform, so they can help address some of society's biggest challenges. This year, we provided nonprofits with over \$3.8 billion in discounted and donated technology. Nearly 325,000 nonprofits used our cloud. And to help them tap the potential of AI, we're building new AI capabilities for fundraising, marketing, and program delivery.

AI will displace some jobs, but it will also create new ones. That's why we aim to train and certify 10 million people by 2025 with the skills for jobs and livelihoods in an increasingly digital economy. Since July 2020, we've helped 8.5 million people, including 2.7 million this year. We've also focused on skilling women and underrepresented communities in cybersecurity, working across 28 countries and with nearly 400 US community colleges to scale our efforts.

Finally, to help people learn more about AI, we launched the first online Professional Certificate on Generative AI in partnership with LinkedIn Learning, created AI tools for educators, and held our first AI Community Learning event in the US. These events will be replicated around the world and localized in 10 languages over the next year. We also partnered

to launch a Generative AI Skills Grant Challenge to explore how nonprofit, social enterprise, and research or academic institutions can empower the workforce to use this new generation of AI.

How can we earn trust?

To create positive impact with technology, people need to be able to trust the technologies they use and the companies behind them. For us, earning trust spans the responsible use of AI, protecting privacy, and advancing digital safety and cybersecurity.

Our commitment to responsible AI is not new. Since 2017, we've worked to develop our responsible AI practice, recognizing that trust is never given but earned through action.

We have translated our AI principles into a core set of implementation processes, as well as tools, training, and practices to support compliance. But internal programs aren't enough. We also enable our customers and partners to develop and deploy AI safely, including through our AI customer commitments and services like Azure AI Studio, with its content safety tooling and access to our Responsible AI dashboard.

Building AI responsibly requires that we work with other industry leaders, civil society, and governments to advocate for AI regulations and governance globally. This year, we released our Governing AI Blueprint, which outlines concrete legal and policy recommendations for AI guardrails. We are signatories to the eight voluntary commitments developed with the US White House, and proud of the six additional commitments we've made to further strengthen and operationalize the principles of safety, security, and trust.

The era of AI heightens the importance of cybersecurity, and we deepened our work across the private and public sectors to improve cyber-resilience. We've continued to support Ukraine in defending critical infrastructure, detecting and disrupting cyberattacks and cyberinfluence operations, and providing intelligence related to these attacks. Our Microsoft Threat Analysis Center team produced more than 500 intelligence reports to help keep customers and the public informed. And we published our third annual Microsoft Digital Defense Report, sharing our learnings and security recommendations.

We also remain committed to creating safe experiences online and protecting customers from illegal and harmful content and conduct, while respecting human rights. We supported the Christchurch Call Initiative on Algorithmic Outcomes to address terrorist and violent and extremist content online. And through the World Economic Forum's Global Coalition for Digital Safety, we co-led the development of new global principles for digital safety.

Protecting customers' privacy and giving them control of their data is more important than ever. We've begun our phased rollout of the EU Data Boundary, supporting our commercial and public sector customers' need for data sovereignty. And each month, more than 3 million people exercise their data protection rights through our privacy dashboard, making meaningful choices about how their data is used.

How can we protect fundamental rights?

In an increasingly digital world, we have a responsibility to promote and protect people's fundamental rights and address the challenges technology creates. For us, this means upholding responsible business practices, expanding connectivity and accessibility, advancing fair and inclusive societies, and empowering communities.

In 2023, we worked diligently to anticipate harmful uses of our technology and put guardrails on the use of technologies that are consequential to people's lives or legal status, create risk of harm, or threaten human rights. We will continue to assess the impact of our technologies, engage our stakeholders, and model and adopt responsible practices and respect for human rights—including across our global supply chain.

Today, our lives are more connected than ever. Access to education, employment, healthcare, and other critical services is increasingly dependent on technology. That's why we've expanded our commitment to bring access to affordable high-speed internet to a quarter of a billion people around the world, including 100 million people in Africa, by the end of 2025. Since 2017, we've helped bring internet access to 63 million people, a key first step to ensuring communities will have access to AI and other digital technologies.

This year, we also continued working toward our five-year commitment to bridge the disability divide with a focus on helping close the accessibility knowledge gap. Seven hundred and fifty-thousand learners enriched their understanding of disability and accessibility in partnership with LinkedIn Learning, Teach Access, and the Microsoft disability community.

In addition, we're stepping up efforts to combat online disinformation through new media content provenance technologies—enabling users to verify if an image or video was generated by AI. We continued our efforts to promote racial equity across Microsoft, our ecosystem, and our communities, including our work to advance justice reform through data-driven insights. And we provided support in response to eight humanitarian disasters, including committing \$540 million of support to those who have been impacted by the War in Ukraine.

Finally, recognizing AI's potential to advance human rights and humanitarian action, we worked on several AI for Humanitarian Action projects. Together with our partners, we're building the capabilities to identify at-risk communities, estimate seasonal hunger, predict malnutrition, and assist in disease identification.

How can we advance sustainability?

Climate change is the defining issue of our generation, and addressing it requires swift, collective action and technological innovation. We are committed to meeting our own goals while enabling others to do the same. That means taking responsibility for our operational footprint and accelerating progress through technology.

We continue to see extreme weather impacting communities globally. To meet the urgent need, this must be a decade of innovation and decisive action—for Microsoft, our customers, and the world.

In our latest Environmental Sustainability Report, we shared our progress toward our 2030 sustainability targets across carbon, water, waste, and ecosystems. In 2022, our overall carbon emissions declined by 0.5 percent while our business grew. Addressing scope 3 emissions, which account for the vast majority of our emissions, is arguably our ultimate challenge—one we'll continue to tackle through our supply chain, policy advances, and industry-wide knowledge-sharing.

We've provided just under 1 million people with access to clean water and sanitation, one of five pillars on our path to becoming water positive. And in our pursuit to be zero waste, we achieved a reuse and recycle rate of 82 percent for all our cloud hardware and diverted over 12,000 metric tons of solid operational waste from landfills and incinerators.

We also continue to take responsibility for the impacts of our direct operations on Earth's ecosystems. We've contracted to protect 17,268 acres of land, over 50 percent more than the land we use to operate. Of that, 12,270 acres—the equivalent of approximately 7,000 soccer fields—were designated as permanently protected.

Technology is a powerful lever to help us avoid the most severe impacts of climate change. That's why we're accelerating our investment in more efficient datacenters, clean energy, enhancements to the Microsoft Cloud for Sustainability and Planetary Computer, and green software practices. To date, through our Climate Innovation Fund, we've allocated more than \$700 million to a global portfolio of 50+ investments spanning sustainable solutions in energy, industrial, and natural systems.

Finally, we believe AI can be a powerful accelerant in addressing the climate crisis. We expanded our AI for Good Lab in Egypt and Kenya to improve climate resilience for the continent. And, together with our partners, we launched Global Renewables Watch, a first-of-its-kind living atlas that aims to map and measure utility-scale solar and wind installations, allowing users to evaluate progress toward a clean energy transition.

Although this new era promises great opportunity, it demands even greater responsibility from companies like ours. As we pursue our four commitments, we focus on transparency—providing clear reporting on how we run our business and how we work with customers and partners. Our annual Impact Summary shares more about our progress and learnings this year, and our Reports Hub provides detailed reports on our environmental data, political activities, workforce demographics, human rights work, and more.

OUR CULTURE

There's never been a more important time to live our culture. The way we work and the speed at which we work are changing.

In an economy where yesterday's exceptional is today's expected, all of us at Microsoft will need to embrace a growth mindset and, more importantly, confront our fixed mindsets as our culture evolves. It will take everyday courage to reformulate what innovation, business models, and sales motions look like in this new era. As a high-performance organization, we aspire to help our employees maximize their economic opportunity, while simultaneously helping them

learn and grow professionally and connect their own passion and purpose with their everyday work and the company's mission.

To be successful, we need to be grounded in what our customers and the world need. We need to innovate and collaborate as One Microsoft. And we need to actively seek diversity and embrace inclusion to best serve our customers and create a culture where everyone can do their best work. To empower the world, we need to represent the world. To that end, we remain focused on increasing representation and strengthening our culture of inclusion. Even as we navigated challenges this year, our company continued to be the most globally diverse it's ever been.

Giving also remains core to our culture. This year, more than 105,000 employees gave \$242 million (including company match) to over 35,000 nonprofits in 116 countries. And our employees volunteered over 930,000 hours to causes they care about.

I am deeply grateful to our employees for their commitment to the company and their communities, and how they are living our mission and culture every day in a changing company and world.

**

In closing, this is Microsoft's moment. We have an incredible opportunity to use this new era of AI to deliver meaningful benefits for every person and every organization on the planet.

On New Year's Day, I saw a tweet from Andrej Karpathy, Tesla's former director of AI who now works at OpenAI, about how GitHub Copilot was writing about 80 percent of his code, with 80 percent accuracy. Two days later, I saw a stunning example of work we've done with the government of India's Ministry of Electronics and IT, which is applying an AI model so farmers in rural areas can interact with government resources in their native languages.

Think about that: A foundation model that was developed on the West Coast of the United States is already transforming the lives of both elite developers *and* rural farmers on the other side of the globe. We've not seen this speed of diffusion and breadth of impact in the tech industry before.

As a company, this is our moment to show up and responsibly build solutions that drive economic growth and benefit every community, country, industry, and person. If we do it well, the world will do well, and Microsoft will do well too. I've never been more confident that we will deliver on this promise together in the days, months, and years to come.



Satya Nadella
Chairman and Chief Executive Officer
October 16, 2023

ISSUER PURCHASES OF EQUITY SECURITIES, DIVIDENDS, AND STOCK PERFORMANCE

MARKET AND STOCKHOLDERS

Our common stock is traded on the NASDAQ Stock Market under the symbol MSFT. On July 24, 2023, there were 83,883 registered holders of record of our common stock.

SHARE REPURCHASES AND DIVIDENDS

Share Repurchases

On September 18, 2019, our Board of Directors approved a share repurchase program authorizing up to \$40.0 billion in share repurchases. This share repurchase program commenced in February 2020 and was completed in November 2021.

On September 14, 2021, our Board of Directors approved a share repurchase program authorizing up to \$60.0 billion in share repurchases. This share repurchase program commenced in November 2021, following completion of the program approved on September 18, 2019, has no expiration date, and may be terminated at any time. As of June 30, 2023, \$22.3 billion remained of this \$60.0 billion share repurchase program.

We repurchased the following shares of common stock under the share repurchase programs:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,	2023		2022		2021	
First Quarter	17	\$ 4,600	21	\$ 6,200	25	\$ 5,270
Second Quarter	20	4,600	20	6,233	27	5,750
Third Quarter	18	4,600	26	7,800	25	5,750
Fourth Quarter	14	4,600	28	7,800	24	6,200
Total	69	\$ 18,400	95	\$ 28,033	101	\$ 22,970

All repurchases were made using cash resources. Shares repurchased during fiscal year 2023 and the fourth and third quarters of fiscal year 2022 were under the share repurchase program approved on September 14, 2021. Shares repurchased during the second quarter of fiscal year 2022 were under the share repurchase programs approved on both September 14, 2021 and September 18, 2019. All other shares repurchased were under the share repurchase program approved on September 18, 2019. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards of \$3.8 billion, \$4.7 billion, and \$4.4 billion for fiscal years 2023, 2022, and 2021, respectively.

Dividends

Our Board of Directors declared the following dividends:

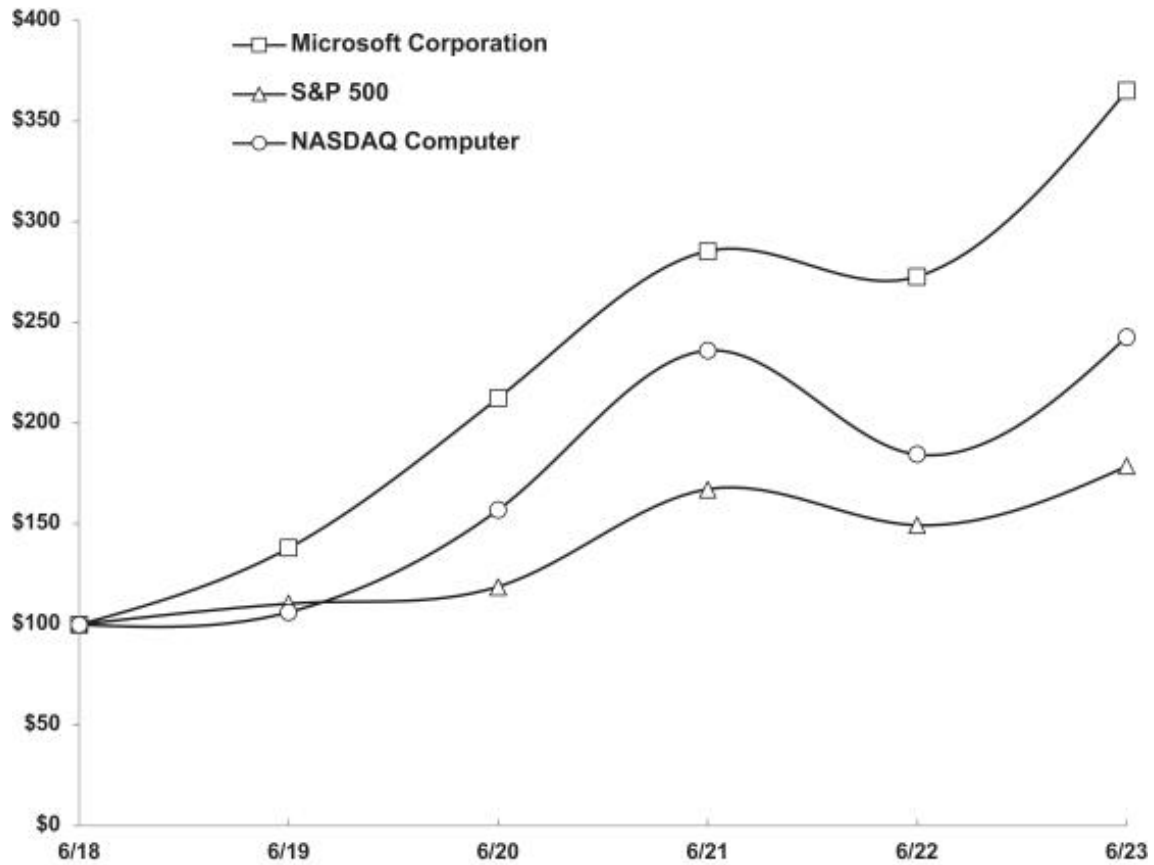
Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
Fiscal Year 2023				(In millions)
September 20, 2022	November 17, 2022	December 8, 2022	\$ 0.68	\$ 5,066
November 29, 2022	February 16, 2023	March 9, 2023	0.68	5,059
March 14, 2023	May 18, 2023	June 8, 2023	0.68	5,054
June 13, 2023	August 17, 2023	September 14, 2023	0.68	5,054
Total			\$ 2.72	\$ 20,233
Fiscal Year 2022				
September 14, 2021	November 18, 2021	December 9, 2021	\$ 0.62	\$ 4,652
December 7, 2021	February 17, 2022	March 10, 2022	0.62	4,645
March 14, 2022	May 19, 2022	June 9, 2022	0.62	4,632
June 14, 2022	August 18, 2022	September 8, 2022	0.62	4,621
Total			\$ 2.48	\$ 18,550

The dividend declared on June 13, 2023 was included in other current liabilities as of June 30, 2023.

STOCK PERFORMANCE

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Microsoft Corporation, the S&P 500 Index
and the NASDAQ Computer Index



		6/18		6/19		6/20		6/21		6/22		6/23
Microsoft Corporation	\$	100.00	\$	138.07	\$	212.34	\$	285.40	\$	272.82	\$	365.24
S&P 500		100.00		110.42		118.70		167.13		149.39		178.66
NASDAQ Computer		100.00		106.10		156.93		236.08		184.53		242.82

* \$100 invested on 6/30/18 in stock or index, including reinvestment of dividends. Fiscal year ending June 30.

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” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. 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” in our fiscal year 2023 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.

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. We are creating the platforms and tools, powered by artificial intelligence (“AI”), that deliver better, faster, and more effective solutions to support small and large business competitiveness, improve educational and health outcomes, grow public-sector efficiency, and empower human ingenuity. From infrastructure and data, to business applications and collaboration, we provide unique, differentiated value to customers.

In a world of increasing economic complexity, AI has the power to revolutionize many types of work. Microsoft is now innovating and expanding our portfolio with AI capabilities to help people and organizations overcome today’s challenges and emerge stronger. Customers are looking to unlock value from their digital spend and innovate for this next generation of AI, while simplifying security and management. Those leveraging the Microsoft Cloud are best positioned to take advantage of technological advancements and drive innovation. Our investment in AI spans the entire company, from Microsoft Teams and Outlook, to Bing and Xbox, and we are infusing generative AI capability into our consumer and commercial offerings to deliver copilot capability for all services across the Microsoft Cloud.

We’re committed to making the promise of AI real – and doing it responsibly. Our work is guided by a core set of principles: fairness, reliability and safety, privacy and security, inclusiveness, transparency, and accountability.

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.

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, productive 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. Microsoft 365 Copilot combines next-generation AI with business data in the Microsoft Graph and Microsoft 365 applications.

Together with the Microsoft Cloud, Dynamics 365, Microsoft Teams, and our AI offerings bring a new era of collaborative applications that optimize business functions, processes, and applications to better serve customers and employees while creating more business value. 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 and adoption of AI accelerates and revolutionizes more business workstreams, 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. 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.

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 provides 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.

Our AI platform, Azure AI, is helping organizations transform, bringing intelligence and insights to the hands of their employees and customers to solve their most pressing challenges. Organizations large and small are deploying Azure AI solutions to achieve more at scale, more easily, with the proper enterprise-level and responsible AI protections.

We have a long-term partnership with OpenAI, a leading AI research and deployment company. We deploy OpenAI’s models across our consumer and enterprise products. As OpenAI’s exclusive cloud provider, Azure powers all of OpenAI’s workloads. We have also increased our investments in the development and deployment of specialized supercomputing systems to accelerate OpenAI’s research.

Our hybrid infrastructure offers integrated, end-to-end security, compliance, identity, and management capabilities 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. Azure Arc simplifies governance and management by delivering a consistent multi-cloud and on-premises management platform.

Nuance, a leader in conversational AI and ambient intelligence across industries including healthcare, financial services, retail, and telecommunications, joined Microsoft in 2022. Microsoft and Nuance enable organizations to accelerate their business goals with security-focused, cloud-based solutions infused with AI.

We are accelerating our development of mixed reality solutions with new Azure services and devices. Microsoft Mesh enables organizations to create custom, immersive experiences for the workplace to help bring remote and hybrid workers and teams together.

The ability to convert data into AI drives our competitive advantage. The Microsoft Intelligent Data Platform is a leading cloud data platform that fully integrates databases, analytics, and governance. The platform empowers organizations to invest more time creating value rather than integrating and managing their data. Microsoft Fabric is an end-to-end, unified analytics platform that brings together all the data and analytics tools that organizations need.

GitHub Copilot is at the forefront of AI-powered software development, giving developers a new tool to write code easier and faster so they can focus on more creative problem-solving. 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.

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, users can run Windows 365, just like a virtual machine.

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, enabling users to interact with technology in more intuitive, engaging, and dynamic ways.

Windows 11 offers innovations focused on enhancing productivity, including Windows Copilot with centralized AI assistance and Dev Home to help developers become more productive. Windows 11 security and privacy features include operating system security, application security, and user and identity security.

Through our Search, News, Mapping, and Browser services, Microsoft delivers unique trust, privacy, and safety features. In February 2023, we launched an all new, AI-powered Microsoft Edge browser and Bing search engine with Bing Chat to deliver better search, more complete answers, and the ability to generate content. Microsoft Edge is our fast and secure browser that helps protect users' data. Quick access to AI-powered tools, apps, and more within Microsoft Edge's sidebar enhance browsing capabilities.

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 Pro, Surface Laptop, and other Surface products.

Microsoft continues to invest in gaming 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 subscription services like Xbox Game Pass and new devices from third-party manufacturers so players can engage across PC, console, and mobile. In January 2022, we announced plans to acquire Activision Blizzard, Inc., a leader in game development and an interactive entertainment content publisher.

Our Future Opportunity

We are focused on helping customers use the breadth and depth of the Microsoft Cloud to get the most value out of their digital spend while leading the new AI wave across our solution areas. We continue to develop complete, intelligent solutions for our customers that empower people to be 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, and interact with one another.
- Building and running cloud-based services in ways that utilize ubiquitous computing to unleash new experiences and opportunities for businesses and individuals.

- Applying AI and ambient intelligence to drive insights, revolutionize many types of work, and provide substantive productivity gains 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.
- 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, Microsoft Teams, Microsoft 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.

Corporate Social Responsibility

Commitment to Sustainability

Microsoft's approach to addressing climate change starts with the sustainability of our own business. In 2020, we committed to being a carbon negative, water positive, and zero waste company by 2030.

In May 2023, we released our Environmental Sustainability Report which looked back at our progress during fiscal year 2022. We continued to make progress on our goals, with our overall emissions declining by 0.5 percent. While our Scope 1 and Scope 2 emissions continued to decline, Scope 3 emissions increased by 0.5 percent. Scope 3 represented 96 percent of our total emissions, resulting primarily from the operations of our suppliers and the use of our products across our customers.

A few examples of our continued progress include:

- Signed new power purchase agreements, bringing our total portfolio of carbon-free energy to over 13.5 gigawatts.
- Contracted for water replenishment projects that are estimated to provide more than 15.6 million cubic meters in volumetric water benefit over the lifetime of these projects.
- Diverted 12,159 metric tons of solid waste from landfills and incinerators across our direct operational footprint.
- Protected 12,270 acres of land in Belize – more than the 11,206 acres of land that we use around the world.

Microsoft has a role to play in developing and advancing new climate solutions, but we recognize that no solution can be offered by any single company, organization, or government. Our approach helps to support the sustainability needs of our customers and the global community. Our Microsoft Cloud for Sustainability, an environmental sustainability management platform that includes Microsoft Sustainability Manager, enables organizations to record, report, and reduce their Scope 1, 2, and 3 emissions. These digital tools can interoperate with business systems and unify data intelligence for organizations.

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.
- Engaging 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: building on our momentum by 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.

In fiscal year 2023, we collaborated with partners and worked within neighborhoods and communities to launch and scale a number of projects and programs, including:

- Working with 103 unique organizations in 165 cities and counties on our Justice Reform Initiative to empower communities and advance racial equity and fairness in the justice system.
- Increasing access to affordable broadband, devices, and digital literacy training across 14 geographies, including 11 cities and three states in the Black Rural south.
- Growing our Nonprofit Tech Acceleration for Black and African American Communities program, which uses data, technology, and partnerships to help more than 2,000 local organizations to modernize and streamline operations.
- Expanding our Technology Education and Learning Support (“TEALS”) program to reach nearly 400 high schools in 21 communities to increase computer science opportunities for Black and African American students.

We exceeded our 2020 goal to double the percentage of our transaction volumes with Black- and African American-owned financial institutions by 2023. We are also increasing investment activity with Black- and African American-owned asset managers, which now represent 45 percent of our external manager group, enabling increased funds into local communities. We also met our goal of creating a \$100 million program focused on mission-driven banks. We enriched our supplier pipeline, achieving 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 by more than 250 percent, surpassing our initial goal.

We have made meaningful progress on representation and inclusion at Microsoft. As of June 2023, we are 93 percent of the way to our 2025 commitment to double the number of Black and African American people managers in the U.S. (below director level), and 107 percent of the way for Black and African American directors (people managers and individual contributors). We are 28 percent of the way for Hispanic and Latinx people managers (below director level) and 74 percent of the way for Hispanic and Latinx directors.

Investing in Digital Skills

After helping over 80 million jobseekers around the world access digital skilling resources, we introduced a new Skills for Jobs 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 for Jobs 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 also launched a national campaign to help skill and recruit 250,000 people into the cybersecurity workforce 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 higher education institutions, providing training for new and existing faculty, and providing scholarships and supplemental resources to 25,000 students. We have expanded the cyber skills initiative to 27 additional countries that show elevated cyberthreat risks coupled with significant gaps in their cybersecurity workforces, partnering with nonprofits and other educational institutions to train the next generation of cybersecurity workers.

Generative AI is creating unparalleled opportunities to empower workers globally, but only if everyone has the skills to use it. To address this, in June 2023 we launched a new AI Skills Initiative to help everyone learn how to harness the power of AI. This includes a new LinkedIn learning pathway offering new coursework on learning the foundations of generative AI. We also launched a new global grant challenge to uncover new ways of training workers on generative AI and are providing greater access to digital learning events and resources for everyone to improve their AI fluency.

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 and do their best work. 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.

As of June 30, 2023, we employed approximately 221,000 people on a full-time basis, 120,000 in the U.S. and 101,000 internationally. Of the total employed people, 89,000 were in operations, including manufacturing, distribution, product

support, and consulting services; 72,000 were in product research and development; 45,000 were in sales and marketing; and 15,000 were in general and administration. Certain employees are subject to collective bargaining agreements.

Our Culture

Microsoft's culture is grounded in growth mindset. This means everyone is on a continuous journey to learn and grow, operating as one company instead of multiple siloed businesses.

Our employee listening systems enable us to gather feedback directly from our workforce to inform our programs and employee needs globally. Employees participate in our Employee Signals surveys, which cover a variety of topics such as thriving, inclusion, team culture, wellbeing, and learning and development. We also collect Daily Signals employee survey responses, giving us real-time insights into ways we can support our employees. In addition to Employee Signals and Daily Signals surveys, we gain insights through onboarding, exit surveys, internal Viva Engage channels, employee Q&A sessions, and our internal AskHR Service support.

Diversity and inclusion are core to our business model, and we hold ourselves accountable for driving global systemic change in our workforce and creating an inclusive work environment. 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 2022 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 and Pay Equity

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. Our total compensation opportunity is highly differentiated and is market competitive.

In order to manage our costs in a dynamic, competitive environment, in fiscal year 2023 we announced that base salaries of salaried employees would remain at fiscal year 2022 levels. Pay increases continue to be available for rewards-eligible hourly and equivalent employees. We will continue our practice of investing in stock for all rewards-eligible employees, salaried and hourly, and investing in bonuses for all eligible employees.

Since 2016, we have reported on pay equity as part of our annual Diversity and Inclusion report. In 2022, we reported that all racial and ethnic minority employees in the U.S. combined earn \$1.008 for every \$1.000 earned by their white counterparts, that women in the U.S. earn \$1.007 for every \$1.000 earned by their counterparts who are men, and that women outside the U.S. earn \$1.002 for every \$1.000 earned by their counterparts outside the U.S. who are men. In this year's report, we again expanded our pay equity data beyond the U.S. to report on 61 additional countries (up from 12 last year), representing 99.8% of our global Microsoft workforce.

In addition, we began reporting on unadjusted median pay in our annual report, comparing total pay amounts for all employees regardless of factors such as job title, level, or tenure. For employees who are eligible for rewards, the analysis showed that total pay for women is 89.6% of total pay for men in the U.S. and 86.2% outside of the U.S., and total pay for racial and ethnic minorities in the U.S. is 89.9% of total pay for white employees. As we continue to increase representation for women and racial and ethnic minorities at more senior levels, and continue to ensure pay equity for all, the gap between the medians will reduce.

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.

Wellbeing and Hybrid Work

Microsoft is committed to supporting our employees' wellbeing while they are at work and in their personal lives. We have invested significantly in 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, disability accommodations, 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 introduced Hybrid Workplace Flexibility Guidance to better support leaders, managers, and employees in hybrid work scenarios. Our ongoing survey data shows that 93% of employees value the flexibility related to work location, work site, and work hours, and 78% are satisfied with the quality of connection with co-workers. There is no one-size-fits-all approach to flexible work at Microsoft. As a company, we will continue to leverage data and research to inform decision making, balancing the needs of business, team, and individual.

Learning and Development

We offer a range of learning opportunities, including personalized opportunities on our internal and external learning portals, in-classroom learning, required learning on compliance and company culture, on-the-job advancement opportunities, and manager coaching. We also provide customized manager learning, new employee orientation, and tools for operating in a flexible hybrid work environment.

All Microsoft employees globally access our single Viva Learning tool for both required and personal choice learning. This includes courses focused on our core principles and compliance matters, such as Business Conduct, Privacy, Security Foundations, and Harassment Prevention. We also deliver skills training for employees based on their profession and role discipline.

We have over 27,000 people managers, all of whom must complete between 20-33 hours of compulsory training on leadership and management and are assigned additional targeted training on an ongoing basis related to people management, compliance, and culture.

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.

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, Microsoft Viva, and Microsoft 365 Copilot.
- 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 (including 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 and creativity 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.

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 enable professionals to manage their professional identity, grow their network, find jobs, 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 950 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, 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. Meta offers communication tools to enable productivity and engagement within organizations. 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.

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, Industry Solutions (formerly 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.

Azure AI offerings provide a competitive advantage as companies seek ways to optimize and scale their business with machine learning. Azure’s purpose-built, AI-optimized infrastructure allows advanced models, including GPT-4 services designed for developers and data scientists, to do more with less. Customers can integrate large language models and develop the next generation of AI apps and services.

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. 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, Industry Solutions, 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. 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. Our AI offerings compete with AI products from hyperscalers such as Amazon Bedrock, Amazon CodeWhisperer, and Google AI, as well as products from other emerging competitors, many of which are also current or potential partners, including Meta's LLaMA2 and other open source solutions. 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. 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.

We compete to provide enterprise-wide computing solutions and point solutions with numerous commercial software vendors that offer solutions and middleware technology platforms, software applications for connectivity (both Internet and intranet), security, hosting, database, and e-business servers. IBM and Oracle lead a group of companies focused on the Java Platform Enterprise Edition that competes with our enterprise-wide computing solutions. Commercial competitors for our server applications for PC-based distributed client-server environments include CA Technologies, IBM, and Oracle. Our web application platform software competes with open source software such as Apache, Linux, MySQL, and PHP. In middleware, we compete against Java vendors.

Our database, business intelligence, and data warehousing solutions offerings compete with products from IBM, Oracle, SAP, Snowflake, and other companies. Our system management solutions compete with server management and server virtualization platform providers, such as BMC, CA Technologies, Hewlett-Packard, IBM, and VMware. Our products for software developers compete against offerings from Adobe, IBM, Oracle, and other companies, and also against open source projects, including Eclipse (sponsored by CA Technologies, IBM, Oracle, and SAP), PHP, and Ruby on Rails.

We believe our server products provide customers with advantages in performance, total costs of ownership, and productivity by delivering superior applications, development tools, compatibility with a broad base of hardware and software applications, security, and manageability.

Our Enterprise Services business competes with a wide range of companies that provide strategy and business planning, application development, and infrastructure services, including multinational consulting firms and small niche businesses focused on specific technologies.

More Personal Computing

Our More Personal Computing segment consists of products and services that put customers at the center of the experience with our technology. This segment primarily comprises:

- Windows, including Windows OEM licensing ("Windows OEM") and other non-volume licensing of the Windows operating system; Windows Commercial, comprising volume licensing of the Windows operating system, Windows cloud services, and other Windows commercial offerings; patent licensing; and Windows IoT.
- Devices, including Surface, HoloLens, and PC accessories.
- Gaming, including Xbox hardware and Xbox content and services, comprising first- and third-party content (including games and in-game content), Xbox Game Pass and other subscriptions, Xbox Cloud Gaming, advertising, third-party disc royalties, and other cloud services.
- Search and news advertising, comprising Bing (including Bing Chat), Microsoft News, Microsoft Edge, and third-party affiliates.

Windows

The Windows operating system is designed to deliver a more personal computing experience for users by enabling consistency of experience, applications, and information across their devices. Windows OEM revenue is impacted significantly by the number of Windows operating system licenses purchased by OEMs, which they pre-install on the devices they sell. In addition to computing device market volume, Windows OEM revenue is impacted by:

- The mix of computing devices based on form factor and screen size.
- Differences in device market demand between developed markets and growth markets.
- Attachment of Windows to devices shipped.
- Customer mix between consumer, small and medium businesses, and large enterprises.
- Changes in inventory levels in the OEM channel.
- Pricing changes and promotions, pricing variation that occurs when the mix of devices manufactured shifts from local and regional system builders to large multinational OEMs, and different pricing of Windows versions licensed.
- Constraints in the supply chain of device components.
- Piracy.

Windows Commercial revenue, which includes volume licensing of the Windows operating system and Windows cloud services such as Microsoft Defender for Endpoint, is affected mainly by the demand from commercial customers for volume licensing and Software Assurance ("SA"), as well as advanced security offerings. Windows Commercial revenue often reflects the number of information workers in a licensed enterprise and is relatively independent of the number of PCs sold in a given year.

Patent licensing includes our programs to license patents we own for use across a broad array of technology areas, including mobile devices and cloud offerings.

Windows IoT extends the power of Windows and the cloud to intelligent systems by delivering specialized operating systems, tools, and services for use in embedded devices.

Devices

We design and sell devices, including Surface, HoloLens, and PC accessories. Our devices are designed to enable people and organizations to connect to the people and content that matter most using Windows and integrated Microsoft products and services. Surface is designed to help organizations, students, and consumers be more productive. Growth in Devices is dependent on total PC shipments, the ability to attract new customers, our product roadmap, and expanding into new categories.

Gaming

Our gaming platform is designed to provide a variety of entertainment through a unique combination of content, community, and cloud services. Our exclusive game content is created through Xbox Game Studios, a collection of first-party studios creating iconic and differentiated gaming experiences. We continue to invest in new gaming studios and content to expand our intellectual property roadmap and leverage new content creators. These unique gaming experiences are the cornerstone of Xbox Game Pass, a subscription service and gaming community with access to a curated library of over 400 first- and third-party console and PC titles.

The gamer remains at the heart of the Xbox ecosystem. We are identifying new opportunities to attract gamers across a variety of different end points through our first- and third-party content and business diversification across subscriptions, ads, and digital stores. We've seen new devices from third-party manufacturers along with key PC and mobile end points that help us empower gamers to play in a way that is most convenient to them. We are focused on growing the platform and expanding to new ecosystems to engage as many gamers as possible.

Xbox enables people to connect and share online gaming experiences that are accessible on Xbox consoles, Windows-enabled devices, and other devices. Xbox is designed to benefit users by providing access to a network of certified applications and services and to benefit our developer and partner ecosystems by providing access to a large customer

base. Xbox revenue is mainly affected by subscriptions and sales of first- and third-party content, as well as advertising. Growth of our Gaming business is determined by the overall active user base through Xbox enabled content, availability of games, providing exclusive game content that gamers seek, the computational power and reliability of the devices used to access our content and services, and the ability to create new experiences through first-party content creators.

Search and News Advertising

Our Search and news advertising business is designed to deliver relevant search, native, and display advertising to a global audience. Our Microsoft Edge browser and Bing Chat capabilities are key tools to enable user acquisition and engagement, while our technology platform enables accelerated delivery of digital advertising solutions. In addition to first-party tools, we have several partnerships with companies, such as Yahoo, through which we provide and monetize search offerings. Growth depends on our ability to attract new users, understand intent, and match intent with relevant content on advertising offerings.

Competition

Windows faces competition from various software products and from alternative platforms and devices, mainly from Apple and Google. We believe Windows competes effectively by giving customers choice, value, flexibility, security, an easy-to-use interface, and compatibility with a broad range of hardware and software applications, including those that enable productivity.

Devices face competition from various computer, tablet, and hardware manufacturers who offer a unique combination of high-quality industrial design and innovative technologies across various price points. These manufacturers, many of which are also current or potential partners and customers, include Apple and our Windows OEMs.

Xbox and our cloud gaming services face competition from various online gaming ecosystems and game streaming services, including those operated by Amazon, Apple, Meta, and Tencent. We also compete with other providers of entertainment services such as video streaming platforms. Our gaming platform competes with console platforms from Nintendo and Sony, both of which have a large, established base of customers. We believe our gaming platform is effectively positioned against, and uniquely differentiated from, competitive products and services based on significant innovation in hardware architecture, user interface, developer tools, online gaming and entertainment services, and continued strong exclusive content from our own first-party game franchises as well as other digital content offerings.

Our Search and news advertising business competes with Google and a wide array of websites, social platforms like Meta, and portals that provide content and online offerings to end users.

OPERATIONS

We have regional operations service centers that support our operations, including customer contract and order processing, billing, credit and collections, information processing, and vendor management and logistics. The center in Ireland supports the African, Asia-Pacific, European, and Middle East regions; and the centers in Arlington, Virginia, Atlanta, Georgia, Charlotte, North Carolina, Fargo, North Dakota, Fort Lauderdale, Florida, Redmond, Washington, Reno, Nevada, and Puerto Rico support the American regions.

In addition to our operations centers, we also operate datacenters throughout each of these regions. We continue to identify and evaluate opportunities to expand our datacenter locations and increase our server capacity to meet the evolving needs of our customers, particularly given the growing demand for AI services. Our datacenters depend on the availability of permitted and buildable land, predictable energy, networking supplies, and servers, including graphics processing units (“GPUs”) and other components.

Our devices are primarily manufactured by third-party contract manufacturers. For the majority of our products, we have the ability to use other manufacturers if a current vendor becomes unavailable or unable to meet our requirements. However, some of our products contain certain components for which there are very few qualified suppliers. Extended disruptions at these suppliers could impact our ability to manufacture devices on time to meet consumer demand.

RESEARCH AND DEVELOPMENT

Product and Service Development, and Intellectual Property

We develop most of our products and services internally through the following engineering groups.

- *Cloud and AI* – focuses on making IT professionals, developers, partners, independent software vendors, and their systems more productive and efficient through development of Azure AI platform and cloud infrastructure, server, database, CRM, ERP, software development tools and services (including GitHub), AI cognitive services, and other business process applications and services for enterprises.
- *Strategic Missions and Technologies* – focuses on incubating technical products and support solutions with transformative potential for the future of cloud computing and continued company growth across quantum computing, Azure Space & Missions Engineering, telecommunications, and Microsoft Federal Sales and Delivery.
- *Experiences and Devices* – focuses on delivering high value end-user experiences across our products, services, and devices, including Microsoft 365, Windows, Microsoft Teams, Search (including Microsoft Edge and Bing Chat) and other advertising-based services, and the Surface line of devices.
- *Microsoft Security* – focuses on delivering a comprehensive portfolio of services that protect our customers' digital infrastructure through cloud platform and application security, data protection and governance, identity and network access, and device management.
- *Technology and Research* – focuses on fundamental research, product and business incubations, and forward-looking AI innovations that span infrastructure, services, and applications.
- *LinkedIn* – focuses on our services that transform the way professionals grow their network and find jobs and the way businesses hire, market, sell, and learn.
- *Gaming* – focuses on developing hardware, content, and services across a large range of platforms to help grow our user base through game experiences and social interaction.

Internal development allows us to maintain competitive advantages that come from product differentiation and closer technical control over our products and services. It also gives us the freedom to decide which modifications and enhancements are most important and when they should be implemented. We strive to obtain information as early as possible about changing usage patterns and hardware advances that may affect software and hardware design. Before releasing new software platforms, and as we make significant modifications to existing platforms, we provide application vendors with a range of resources and guidelines for development, training, and testing. Generally, we also create product documentation internally.

We protect our intellectual property investments in a variety of ways. We work actively in the U.S. and internationally to ensure the enforcement of copyright, trademark, trade secret, and other protections that apply to our software and hardware products, services, business plans, and branding. We are a leader among technology companies in pursuing patents and currently have a portfolio of over 70,000 U.S. and international patents issued and over 19,000 pending worldwide. While we employ much of our internally-developed intellectual property in our products and services, we also engage in outbound licensing of specific patented technologies that are incorporated into licensees' products. From time to time, we enter into broader cross-license agreements with other technology companies covering entire groups of patents. We may also purchase or license technology that we incorporate into our products and services. At times, we make select intellectual property broadly available at no or low cost to achieve a strategic objective, such as promoting industry standards, advancing interoperability, supporting societal and/or environmental efforts, or attracting and enabling our external development community. Our increasing engagement with open source software will also cause us to license our intellectual property rights broadly in certain situations.

While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and services, we believe, based upon past experience and industry practice, such licenses generally can be obtained on commercially reasonable terms. We believe our continuing research and product development are not materially dependent on any single license or other agreement with a third party relating to the development of our products.

Investing in the Future

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to initiate and embrace disruptive technology trends, to enter new geographic and product markets, and to drive broad adoption

of our products and services. We invest in a range of emerging technology trends and breakthroughs that we believe offer significant opportunities to deliver value to our customers and growth for the company. Based on our assessment of key technology trends, we maintain our long-term commitment to research and development across a wide spectrum of technologies, tools, and platforms spanning digital work and life experiences, cloud computing, AI, devices, and operating systems.

While our main product research and development facilities are located in Redmond, Washington, we also operate research and development facilities in other parts of the U.S. and around the world. This global approach helps us remain competitive in local markets and enables us to continue to attract top talent from across the world.

We plan to continue to make significant investments in a broad range of product research and development activities, and as appropriate we will coordinate our research and development across operating segments and leverage the results across the company.

In addition to our main research and development operations, we also operate Microsoft Research. Microsoft Research is one of the world's largest corporate research organizations, often working in close collaboration with top universities around the world, and is focused on advancing the state-of-the-art in computer science and a broad range of other disciplines. Our investment in fundamental research provides us a unique perspective on future trends and contributes to our innovation.

DISTRIBUTION, SALES, AND MARKETING

We market and distribute our products and services through the following channels: OEMs, direct, and distributors and resellers. Our sales organization performs a variety of functions, including working directly with commercial enterprises and public-sector organizations worldwide to identify and meet their technology and digital transformation requirements; managing OEM relationships; and supporting system integrators, independent software vendors, and other partners who engage directly with our customers to perform sales, consulting, and fulfillment functions for our products and services.

OEMs

We distribute our products and services through OEMs that pre-install our software on new devices and servers they sell. The largest component of the OEM business is the Windows operating system pre-installed on devices. OEMs also sell devices pre-installed with other Microsoft products and services, including applications such as Office and the capability to subscribe to Office 365.

There are two broad categories of OEMs. The largest category of OEMs are direct OEMs as our relationship with them is managed through a direct agreement between Microsoft and the OEM. We have distribution agreements covering one or more of our products with virtually all the multinational OEMs, including Dell, Hewlett-Packard, Lenovo, and with many regional and local OEMs. The second broad category of OEMs are system builders consisting of lower-volume PC manufacturers, which source Microsoft software for pre-installation and local redistribution primarily through the Microsoft distributor channel rather than through a direct agreement or relationship with Microsoft.

Direct

Many organizations that license our products and services transact directly with us through Enterprise Agreements and Enterprise Services contracts, with sales support from system integrators, independent software vendors, web agencies, and partners that advise organizations on licensing our products and services ("Enterprise Agreement Software Advisors" or "ESA"). Microsoft offers direct sales programs targeted to reach small, medium, and corporate customers, in addition to those offered through the reseller channel. A large network of partner advisors support many of these sales.

We also sell commercial and consumer products and services directly to customers, such as cloud services, search, and gaming, through our digital marketplaces and online stores. Additionally, our Microsoft Experience Centers are designed to facilitate deeper engagement with our partners and customers across industries.

Distributors and Resellers

Organizations also license our products and services indirectly, primarily through licensing solution partners ("LSP"), distributors, value-added resellers ("VAR"), and retailers. Although each type of reselling partner may reach organizations of all sizes, LSPs are primarily engaged with large organizations, distributors resell primarily to VARs, and VARs typically

reach small and medium organizations. ESAs are also typically authorized as LSPs and operate as resellers for our other volume licensing programs. Microsoft Cloud Solution Provider is our main partner program for reselling cloud services.

We distribute our retail packaged products primarily through independent non-exclusive distributors, authorized replicators, resellers, and retail outlets. Individual consumers obtain these products primarily through retail outlets. We distribute our devices through third-party retailers. We have a network of field sales representatives and field support personnel that solicit orders from distributors and resellers and provide product training and sales support.

Our Dynamics business solutions are also licensed to enterprises through a global network of channel partners providing vertical solutions and specialized services.

LICENSING OPTIONS

We offer options for organizations that want to purchase our cloud services, on-premises software, and SA. We license software to organizations under volume licensing agreements to allow the customer to acquire multiple licenses of products and services instead of having to acquire separate licenses through retail channels. We use different programs designed to provide flexibility for organizations of various sizes. While these programs may differ in various parts of the world, generally they include those discussed below.

SA conveys rights to new software and upgrades for perpetual licenses released over the contract period. It also provides support, tools, training, and other licensing benefits to help customers deploy and use software efficiently. SA is included with certain volume licensing agreements and is an optional purchase with others.

Volume Licensing Programs

Enterprise Agreement

Enterprise Agreements offer large organizations a manageable volume licensing program that gives them the flexibility to buy cloud services and software licenses under one agreement. Enterprise Agreements are designed for medium or large organizations that want to license cloud services and on-premises software organization-wide over a three-year period. Organizations can elect to purchase perpetual licenses or subscribe to licenses. SA is included.

Microsoft Customer Agreement

A Microsoft Customer Agreement is a simplified purchase agreement presented, accepted, and stored through a digital experience. A Microsoft Customer Agreement is a non-expiring agreement that is designed to support all customers over time, whether purchasing through a partner or directly from Microsoft.

Microsoft Online Subscription Agreement

A Microsoft Online Subscription Agreement is designed for small and medium organizations that want to subscribe to, activate, provision, and maintain cloud services seamlessly and directly via the web. The agreement allows customers to acquire monthly or annual subscriptions for cloud-based services.

Microsoft Products and Services Agreement

Microsoft Products and Services Agreements are designed for medium and large organizations that want to license cloud services and on-premises software as needed, with no organization-wide commitment, under a single, non-expiring agreement. Organizations purchase perpetual licenses or subscribe to licenses. SA is optional for customers that purchase perpetual licenses.

Open Value

Open Value agreements are a simple, cost-effective way to acquire the latest Microsoft technology. These agreements are designed for small and medium organizations that want to license cloud services and on-premises software over a three-year period. Under Open Value agreements, organizations can elect to purchase perpetual licenses or subscribe to licenses and SA is included.

Select Plus

A Select Plus agreement is designed for government and academic organizations to acquire on-premises licenses at any affiliate or department level, while realizing advantages as one organization. Organizations purchase perpetual licenses and SA is optional.

Partner Programs

The Microsoft Cloud Solution Provider Program offers customers an easy way to license the cloud services they need in combination with the value-added services offered by their systems integrator, managed services provider, or cloud reseller partner. Partners in this program can easily package their own products and services to directly provision, manage, and support their customer subscriptions.

The Microsoft Services Provider License Agreement allows hosting service providers and independent software vendors who want to license eligible Microsoft software products to provide software services and hosted applications to their end customers. Partners license software over a three-year period and are billed monthly based on consumption.

The Independent Software Vendor Royalty Program enables partners to integrate Microsoft products into other applications and then license the unified business solution to their end users.

CUSTOMERS

Our customers include individual consumers, small and medium organizations, large global enterprises, public-sector institutions, Internet service providers, application developers, and OEMs. Our practice is to ship our products promptly upon receipt of purchase orders from customers; consequently, backlog is not significant.

AVAILABLE INFORMATION

Our Internet address is www.microsoft.com. At our Investor Relations website, www.microsoft.com/investor, we make available free of charge a variety of information for investors. Our goal is to maintain the Investor Relations website as a portal through which investors can easily find or navigate to pertinent information about us, including:

- Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with or furnish it to the Securities and Exchange Commission ("SEC") at www.sec.gov.
- Information on our business strategies, financial results, and metrics for investors.
- Announcements of investor conferences, speeches, and events at which our executives talk about our product, service, and competitive strategies. Archives of these events are also available.
- Press releases on quarterly earnings, product and service announcements, legal developments, and international news.
- Corporate governance information including our articles of incorporation, bylaws, governance guidelines, committee charters, codes of conduct and ethics, global corporate social responsibility initiatives, and other governance-related policies.
- Other news and announcements that we may post from time to time that investors might find useful or interesting.
- Opportunities to sign up for email alerts to have information pushed in real time.

We publish a variety of reports and resources related to our Corporate Social Responsibility programs and progress on our Reports Hub website, www.microsoft.com/corporate-responsibility/reports-hub, including reports on sustainability, responsible sourcing, accessibility, digital trust, and public policy engagement.

The information found on these websites is not part of, or incorporated by reference into, this or any other report we file with, or furnish to, the SEC. In addition to these channels, we use social media to communicate to the public. It is possible that the information we post on social media could be deemed to be material to investors. We encourage investors, the media, and others interested in Microsoft to review the information we post on the social media channels listed on our Investor Relations website.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Microsoft Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Financial Statements. This section generally discusses the results of our operations for the year ended June 30, 2023 compared to the year ended June 30, 2022. For a discussion of the year ended June 30, 2022 compared to the year ended June 30, 2021, please refer to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2022.

OVERVIEW

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. We are creating the platforms and tools, powered by artificial intelligence ("AI"), that deliver better, faster, and more effective solutions to support small and large business competitiveness, improve educational and health outcomes, grow public-sector efficiency, and empower human ingenuity.

We generate revenue by offering a wide range of cloud-based solutions, content, and other services to people and businesses; licensing and supporting an array of software products; delivering relevant online advertising to a global audience; and designing and selling devices. Our most significant expenses are related to compensating employees; supporting and investing in our cloud-based services, including datacenter operations; designing, manufacturing, marketing, and selling our other products and services; and income taxes.

Highlights from fiscal year 2023 compared with fiscal year 2022 included:

- Microsoft Cloud revenue increased 22% to \$111.6 billion.
- Office Commercial products and cloud services revenue increased 10% driven by Office 365 Commercial growth of 13%.
- Office Consumer products and cloud services revenue increased 2% and Microsoft 365 Consumer subscribers increased to 67.0 million.
- LinkedIn revenue increased 10%.
- Dynamics products and cloud services revenue increased 16% driven by Dynamics 365 growth of 24%.
- Server products and cloud services revenue increased 19% driven by Azure and other cloud services growth of 29%.
- Windows original equipment manufacturer licensing ("Windows OEM") revenue decreased 25%.
- Devices revenue decreased 24%.
- Windows Commercial products and cloud services revenue increased 5%.
- Xbox content and services revenue decreased 3%.
- Search and news advertising revenue excluding traffic acquisition costs increased 11%.

Industry Trends

Our industry is dynamic and highly competitive, with frequent changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies, or new ideas that can further transform the industry and our business. At Microsoft, we push the boundaries of what is possible through a broad range of research and development activities that seek to identify and address the changing demands of customers and users, industry trends, and competitive forces.

Economic Conditions, Challenges, and Risks

The markets for software, devices, and cloud-based services are dynamic and highly competitive. Our competitors are developing new software and devices, while also deploying competing cloud-based services for consumers and businesses.

The devices and form factors customers prefer evolve rapidly, influencing how users access services in the cloud and, in some cases, the user's choice of which suite of cloud-based services to use. Aggregate demand for our software, services, and devices is also correlated to global macroeconomic and geopolitical factors, which remain dynamic. We must continue to evolve and adapt over an extended time in pace with this changing environment.

The investments we are making in cloud and AI infrastructure and devices will continue to increase our operating costs and may decrease our operating margins. We continue to identify and evaluate opportunities to expand our datacenter locations and increase our server capacity to meet the evolving needs of our customers, particularly given the growing demand for AI services. Our datacenters depend on the availability of permitted and buildable land, predictable energy, networking supplies, and servers, including graphics processing units ("GPUs") and other components. Our devices are primarily manufactured by third-party contract manufacturers. For the majority of our products, we have the ability to use other manufacturers if a current vendor becomes unavailable or unable to meet our requirements. However, some of our products contain certain components for which there are very few qualified suppliers. Extended disruptions at these suppliers could impact our ability to manufacture devices on time to meet consumer demand.

Our success is highly dependent on our ability to attract and retain qualified employees. We hire a mix of university and industry talent worldwide. We compete for talented individuals globally by offering an exceptional working environment, broad customer reach, scale in resources, the ability to grow one's career across many different products and businesses, and competitive compensation and benefits.

Our international operations provide a significant portion of our total revenue and expenses. Many of these revenue and expenses are denominated in currencies other than the U.S. dollar. As a result, changes in foreign exchange rates may significantly affect revenue and expenses. Fluctuations in the U.S. dollar relative to certain foreign currencies reduced reported revenue and expenses from our international operations in fiscal year 2023.

On January 18, 2023, we announced decisions we made to align our cost structure with our revenue and customer demand, prioritize our investments in strategic areas, and consolidate office space. As a result, we recorded a \$1.2 billion charge in the second quarter of fiscal year 2023 ("Q2 charge"), which included employee severance expenses of \$800 million, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. First, we reduced our overall workforce by approximately 10,000 jobs through the third quarter of fiscal year 2023 related to the Q2 charge, which represents less than 5% of our total employee base. While we eliminated roles in some areas, we will continue to hire in key strategic areas. Second, we are allocating both our capital and talent to areas of secular growth and long-term competitiveness, while divesting in other areas. Third, we are consolidating our leases to create higher density across our workspaces, which impacted our financial results through the remainder of fiscal year 2023, and we may make similar decisions in future periods as we continue to evaluate our real estate needs.

Refer to Risk Factors in our fiscal year 2023 Form 10-K for a discussion of these factors and other risks.

Seasonality

Our revenue fluctuates quarterly and is generally higher in the second and fourth quarters of our fiscal year. Second quarter revenue is driven by corporate year-end spending trends in our major markets and holiday season spending by consumers, and fourth quarter revenue is driven by the volume of multi-year on-premises contracts executed during the period.

Change in Accounting Estimate

In July 2022, we completed an assessment of the useful lives of our server and network equipment. Due to investments in software that increased efficiencies in how we operate our server and network equipment, as well as advances in technology, we determined we should increase the estimated useful lives of both server and network equipment from four years to six years. This change in accounting estimate was effective beginning fiscal year 2023. Based on the carrying amount of server and network equipment included in property and equipment, net as of June 30, 2022, the effect of this change in estimate for fiscal year 2023 was an increase in operating income of \$3.7 billion and net income of \$3.0 billion, or \$0.40 per both basic and diluted share.

Reportable Segments

We report our financial performance based on the following segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. The segment amounts included in MD&A are presented on a basis consistent with our internal management reporting. We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.

Additional information on our reportable segments is contained in Note 19 – Segment Information and Geographic Data of the Notes to Financial Statements.

Metrics

We use metrics in assessing the performance of our business and to make informed decisions regarding the allocation of resources. We disclose metrics to enable investors to evaluate progress against our ambitions, provide transparency into performance trends, and reflect the continued evolution of our products and services. Our commercial and other business metrics are fundamentally connected based on how customers use our products and services. The metrics are disclosed in the MD&A or the Notes to Financial Statements. Financial metrics are calculated based on financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and growth comparisons relate to the corresponding period of last fiscal year.

In the first quarter of fiscal year 2023, we made updates to the presentation and method of calculation for certain metrics, most notably expanding our Surface metric into a broader Devices metric to incorporate additional revenue streams, along with other minor changes to align with how we manage our businesses.

Commercial

Our commercial business primarily consists of Server products and cloud services, Office Commercial, Windows Commercial, the commercial portion of LinkedIn, Enterprise Services, and Dynamics. Our commercial metrics allow management and investors to assess the overall health of our commercial business and include leading indicators of future performance.

Commercial remaining performance obligation	Commercial portion of revenue allocated to remaining performance obligations, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods
Microsoft Cloud revenue	Revenue from Azure and other cloud services, Office 365 Commercial, the commercial portion of LinkedIn, Dynamics 365, and other commercial cloud properties
Microsoft Cloud gross margin percentage	Gross margin percentage for our Microsoft Cloud business

Productivity and Business Processes and Intelligent Cloud

Metrics related to our Productivity and Business Processes and Intelligent Cloud segments assess the health of our core businesses within these segments. The metrics reflect our cloud and on-premises product strategies and trends.

Office Commercial products and cloud services revenue growth	Revenue from Office Commercial products and cloud services (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, Microsoft Viva, and Microsoft 365 Copilot
Office Consumer products and cloud services revenue growth	Revenue from Office Consumer products and cloud services, including Microsoft 365 Consumer subscriptions, Office licensed on-premises, and other Office services
Office 365 Commercial seat growth	The number of Office 365 Commercial seats at end of period where seats are paid users covered by an Office 365 Commercial subscription
Microsoft 365 Consumer subscribers	The number of Microsoft 365 Consumer subscribers at end of period
Dynamics products and cloud services revenue growth	Revenue from Dynamics products and cloud services, including Dynamics 365, comprising a set of intelligent, cloud-based applications across ERP, CRM (including Customer Insights), Power Apps, and Power Automate; and on-premises ERP and CRM applications