



Annual Report 2024

Dear shareholders, colleagues, customers, and partners:

Fiscal year 2024 was a pivotal year for Microsoft. We entered our 50th year as a company and the second year of the AI platform shift. With these milestones, I've found myself reflecting on how Microsoft has remained a consequential company decade after decade in an industry with no franchise value. And I realize that it's because—time and time again, when tech paradigms have shifted—we have seized the opportunity to reinvent ourselves to stay relevant to our customers, our partners, and our employees. And that's what we are doing again today.

Microsoft has been a platform and tools company from the start. We were founded in 1975 with a belief in creating technology that would enable others to create their own. And, nearly 50 years later, this belief remains at the heart of our mission to **empower every person and every organization on the planet to achieve more**.

This year, we moved from talking about AI to helping our customers translate it into real outcomes—one person, one organization, one institution, and one country at a time. We have made remarkable progress on this front across every industry. For example:

- Coles is generating 1.6 billion daily AI predictions across 850 Australian stores, ensuring every shopper finds what they need.
- Unilever is performing thousands of simulations with AI in the time it would take to run tens of laboratory experiments, as it accelerates its product development.
- Developers at Itaú, Brazil's largest private bank, are coding more efficiently using our AI pair programmer, GitHub Copilot.
- Khan Academy is making tutoring more accessible for students and helping teachers plan more creative lessons, using our small language model Phi.
- Aquafarmers in Indonesia are improving their yields, thanks to an app built with the Azure OpenAI Service, as well as Azure IoT.
- In Kenya, street vendors now have access to credit for the first time, thanks to M-Kopa, a social enterprise using Azure ML to do its forecasting.
- And enterprise customers and their employees around the world, from Amgen and Disney, to Finastra and Vodafone, are using Microsoft 365 Copilot to become more creative and productive.

Financially, the year was also marked by record performance. We delivered over \$245 billion in annual revenue, up 16 percent year-over-year, and over \$109 billion in operating income, up 24 percent.

Going forward, we are focused on three priorities: First, prioritizing fundamentals, with security above all else. We launched the Secure Future Initiative (SFI) this year, bringing together every part of our organization to advance cybersecurity protection. Second, driving trustworthy AI innovation across our entire portfolio while continuing to scale our cloud business. And, finally, managing our cost structure dynamically to generate durable, long-term operating leverage. All three priorities are critical to our ability to continue thriving as a company as we raise the bar on our operational excellence, with a focus on continuous improvement across everything we do.

AGE OF AI

If we go back 70 years to the beginning of modern computing, our industry has had two dreams: First, can computers understand us instead of us having to understand computers? And second, as we digitize more of the world—including people, places, and things—can computers help us reason, plan, and act more effectively using all that information? Over the past year, we have had breakthroughs on both fronts.

The core underlying force behind these breakthroughs is scaling laws. Just like Moore's Law drove the information revolution, the scaling laws of deep neural networks (DNN) and transformers are driving today's AI revolution. Up until the DNN inflection point, progress in compute was keeping up with Moore's Law—doubling every two years. But we have now started to see progress in AI performance double roughly every six months.

There are three capabilities coming together because of these scaling laws. First, we have a new natural user interface that is multimodal. It supports speech, images, and videos—both as input and output. We have memory that retains important context, recalling both our personal knowledge and data across devices, apps, and the web. And, finally, we have new

reasoning and planning capabilities that help us understand complex context, complete end-to-end tasks on our behalf, and reduce our cognitive load.

This new world is being defined by a rich tapestry of AI agents, which can take action on our behalf, including personal agents across work and life, business process agents, and cross-organizational ones. These agents will be able to work in concert as a new input to help make small businesses more productive, make multinationals more competitive, make the public sector more efficient, and improve health and education outcomes broadly.

Microsoft has built three leading platforms to help our customers maximize their opportunity in this emerging agentic era: Copilot, which you can think of as the new UI for AI—the human interface for this agentic world; the Copilot stack, which brings together infrastructure, data, and app services to help customers build their own copilots and agents for their own business processes; and a new category of Copilot devices that are purpose-built for this new era, including the Copilot+ PCs we introduced this year.

OUR OPPORTUNITY

The innovation we have driven over the past year matters only if we translate it into enduring value for our customers. That's why, across our tech stack, we are focused on helping people and organizations realize the benefits of AI.

Infrastructure

This year, we expanded our cloud and AI capacity, announcing new investments across five continents. These are long-term assets to drive new growth for the next decade and beyond, and ensure communities around the world have access to the compute they need to drive economic growth in this new era.

Our cloud now also offers top performance for AI training and inference and the most diverse selection of AI accelerators, including the latest from AMD and NVIDIA, as well as our own first-party silicon, Azure Maia, which we introduced last November.

More broadly, we continued to see sustained revenue growth from migrations as customers turn to Azure. Azure Arc is helping customers streamline their transition, as they secure, develop, and operate workloads with Azure services anywhere. We have 36,000 Arc customers, up 90 percent year-over-year. And we remain the hyperscale cloud of choice for SAP and Oracle workloads.

Data & AI

AI models are now key building blocks for every application. And with Azure AI, we are building out the app server for the AI age, providing access to the most diverse selection of models to meet customers' unique cost, latency, and design considerations. We offer leading frontier models, thanks to our strategic partnership with OpenAI. With Phi-3, which we announced in April, we offer a family of powerful, small language models. And, with Models as a service, we provide API access to third-party models, including the latest from Cohere, Meta, and Mistral. In total, we have over 60,000 Azure AI customers, up nearly 60 percent year-over-year. This year, we also announced a partnership with G42, which will run its AI applications and services on our cloud, as we collaborate to bring our latest AI technologies to the United Arab Emirates and other countries.

AI does not get created without data. At the data layer, we are fundamentally rethinking what it means to be an analytics database or an operational data store in the world of AI. Our Microsoft Intelligent Data Platform provides customers with the broadest capabilities spanning databases, analytics, business intelligence, and governance—along with seamless integration with all our AI services. And Microsoft Fabric, our AI-powered, next-generation data platform we made generally available this year, now has over 14,000 paid customers who can go from data, to insights, to action—all within the same unified SaaS solution.

Digital & app innovation

From GitHub to Visual Studio, we have the most comprehensive developer tools. GitHub Copilot had a breakout year, as it became standard issue for developers in every industry. We now have more than 1.8 million paid subscribers and over 77,000 enterprise customers, up 180 percent year-over-year. They are realizing productivity gains of up to 55 percent while

staying in their flow and bringing the joy back to coding. This year, we also introduced Copilot Workspace, a Copilot-native developer environment, which helps any developer go from idea, to code, to software—all in natural language.

We are also integrating generative AI across Power Platform, enabling anyone to use natural language to create apps, automate workflows, or build a website. In total, we now have 48 million monthly active users of Power Platform, up 40 percent year-over-year.

Modern work

Microsoft 365 Copilot is becoming a daily habit for knowledge workers, transforming their work, workflow, and work artifacts. Adoption has been faster than any other new Microsoft 365 suite. And employees at nearly 60 percent of the Fortune 500 now use Copilot to complete tasks faster, hold more effective meetings, and automate business workflows and processes. In fact, internal and external studies show as much as a 70 percent improvement in productivity using generative AI for specific work tasks. And early Microsoft 365 Copilot users were 29 percent faster in a series of general tasks like searching, writing, and summarizing.

And we're going further, bringing the Web plus Work plus Pages together as the new AI design system for knowledge work. With Pages, which we just announced last month, you can take any information from the web or your work and turn it into a multiplayer, AI-powered canvas. You can ideate with AI and then easily share what you create for collaboration with other people.

And with Copilot Studio, customers can extend Copilot with agents and build their own agents that proactively respond to data and events from their own first- and third-party business data. To date, 50,000 organizations have used it. And, just this week, we announced new capabilities that will make it possible for customers to build autonomous agents using Copilot Studio.

Microsoft Teams remains essential to how hundreds of millions of people meet, call, chat, collaborate, and do business. This year, we rolled out to all customers a new version that is up to two times faster while using 50 percent less memory. And Teams Premium surpassed 3 million seats, up nearly 400 percent year-over-year, as organizations chose it for advanced features like end-to-end encryption and real-time translation.

Business applications

We're using this AI moment to redefine our role in business applications, too. Dynamics 365 once again took share, as organizations use our AI-powered apps to transform their marketing, sales, service, finance, and supply chain functions.

And we are expanding our total addressable market by integrating Copilot into third-party systems as well. Our new Dynamics 365 Contact Center infuses generative AI throughout the contact center workflow in a customer's existing CRM.

We are also extending Copilot to specific industries, including healthcare. With DAX Copilot, more than 400 healthcare organizations are increasing physician productivity and reducing burnout. On average, clinicians save more than five minutes per patient encounter. And 77 percent say it also improves documentation quality.

Security

As I mentioned earlier, security underpins every layer of our tech stack. We are doubling down on our Secure Future Initiative, as we implement our principles of secure by design, secure by default, and secure operations. And we are focused on making continuous progress across the six pillars of the initiative: protect tenants and isolate production systems; protect identities and secrets; protect networks; protect engineering systems; monitor and detect threats; and accelerate response and remediation. As part of this commitment, all Microsoft employees now have security as a "core priority," holding each one of us accountable for building secure products and services.

We are continuously applying what we are learning and translating it into security innovation for our customers. A great example is Copilot for Security, which we made generally available this year. It brings together LLMs with domain-specific

skills informed by our threat intelligence and 78 trillion daily security signals to provide security teams with actionable insights.

Devices & creativity

This year, we introduced an entirely new category of Windows PCs engineered to unleash the power of distributed AI across the cloud and edge. Copilot+ PCs are the fastest, most AI-ready Windows PCs ever built. They include a new system architecture designed to deliver best-in-class performance and breakthrough AI experiences. And we are working across our entire ecosystem to bring these to life, including with AMD, Intel, and Qualcomm, along with our OEM partners.

Professional social network

LinkedIn continues to see accelerated member growth and record engagement. We surpassed 1 billion members for the first time this year, as we combine our unique data with this new generation of AI to transform how people learn, sell, and get hired. LinkedIn Marketing Solutions continues to be a leader in B2B digital advertising, helping companies deliver the right message, to the right audience, on a safe and trusted platform. And when it comes to our subscription businesses, Premium signups increased 51 percent, and we are adding even more value to our members and customers with new AI tools and skilling opportunities.

Search, ads, and news

With Copilot, we're taking the first steps toward creating an AI companion, one that's always by your side, helping you feel smarter and more supported through natural conversations. The refreshed Copilot app we introduced earlier this month delivers a more intuitive design with more digestible, speedy, and fluent answers. It now adapts to you with a warm tone and a distinct style, providing not only information but encouragement, feedback, and advice as you navigate life's everyday challenges—no matter how big or small. And we're adding advanced capabilities like Voice and Vision that make it both more useful and more natural.

We also continue to apply generative AI to pioneer new approaches to how people search and browse. Microsoft Bing and Edge both took share again this year. And we introduced Copilot Pro, providing access to the latest models for quick answers and higher-quality image creation, and access to Copilot for Microsoft 365 Personal and Family subscribers.

Thousands of news and entertainment publishers trust us to reach new audiences with Microsoft Start. And we are also helping advertisers increase their ROI. Copilot in Microsoft Ad Platform helps marketers create campaigns and troubleshoot using natural language.

Gaming

We are bringing great games to more people on more devices. With our acquisition of Activision Blizzard King, which closed October 2023, we've added hundreds of millions of players to our ecosystem. We now have 20 franchises that have generated over \$1 billion in lifetime revenue—from *Candy Crush*, *Diablo*, and *Halo*, to *Warcraft*, *Elder Scrolls*, and *Gears of War*. And with Xbox cloud gaming, we continue to innovate to offer players more ways to experience the games they love—where, when, and how they want. Finally, we brought four of our fan-favorite titles to Nintendo Switch and Sony PlayStation for the first time, as we continue to extend our content to new platforms.

OUR MISSION

Although we have made outstanding progress over the past year, we cannot take our permission to innovate—let alone operate—for granted. It is something we must earn.

We always say Microsoft will do well only if the world around us does well. And that's why we are focused on four enduring commitments. They keep us grounded, serving as a guide as we make decisions, pushing us to ask critical questions to ensure the technology we create benefits everyone on the planet, as well as the planet itself.

How can we expand opportunity?

We are democratizing access to AI and the skills needed to harness its potential, ensuring that every person, organization, and community can benefit from the opportunities AI brings.

This year, we partnered with 375,000 nonprofits globally, providing \$4.7 billion in donated and discounted technology—to help them build capacity, drive efficiencies, innovate, and increase their impact as they take on the world's greatest challenges. Together with our partners, we also made significant strides in skilling. We have trained and certified 14.1 million people across 202 countries in digital skills as of June 2024. Over 80 percent of the learners were from groups furthest from opportunity in the digital economy.

And our work doesn't stop there. We must do more to accelerate the equitable adoption of AI and narrow the digital divide. That's why we've launched new AI skilling initiatives in partnership with governments, educational institutions, industry, and civil society—to help millions of people learn to use generative AI, develop AI tools, and lead AI adoption. This includes people from underserved communities, with a focus on young people, women, rural communities, and the Global South, as well as employees of social impact organizations.

How can we earn trust?

We recognize that trust is earned, not given. And we remain committed to earning trust every day, spanning cybersecurity, trustworthy AI, privacy, and digital safety.

Our Secure Future Initiative advances how we design, build, test, and operate our technology to ensure we deliver solutions that meet the highest possible standard of security. Our first SFI Progress Report highlights updates spanning culture, governance, technology, and operations, but we recognize that our work on security is never complete. We must and will do more. Our promise is to continually learn, improve, and adapt to the evolving needs of an increasingly complex security landscape.

We are focused on building AI that is trustworthy, meaning that it is secure, safe, and private. Our responsible AI practices, grounded in our foundational AI principles, help ensure we do this from the beginning. And we're building on this commitment by introducing new product capabilities across our tech stack, ensuring that both our customers and developers are safeguarded at every level. Ultimately, these commitments and capabilities are key to fulfilling our mission. The world is looking to us to help defend and protect them, and we take that responsibility seriously.

In May, we published our first AI Transparency Report, which outlines how we build generative applications responsibly and support our customers. We also released Goals and Governance: Goals and Lessons for AI, which draws lessons from other globally governed technologies like civil aviation and nuclear power. Through our Accelerating Foundation Models Research program, we've made grants to hundreds of projects in AI safety and alignment research, AI-driven scientific discovery, and beneficial applications of AI. And we launched our Global Perspectives Responsible AI Fellowship program, designed to center the voices of AI experts from the Global South and enable us to better understand AI's impact on developing countries.

As we drive AI innovation, we continue to respond to a changing privacy landscape. We provide tools to help our customers protect their privacy and control their data, and we have published several resources outlining our approach to privacy and AI for our consumer, commercial, and public sector customers.

Finally, we continue our work to create safe experiences online and protect customers from illegal and harmful content and conduct. To bolster our efforts to prevent child sexual exploitation and abuse risks, we have made new commitments to safety by design in our AI services, joined the Tech Coalition's Lantern Program, and proposed concrete actions that US policymakers can take to protect the public through regulatory and policy measures.

How can we protect fundamental rights?

We are committed to protecting fundamental rights—extending the benefits of technology while mitigating its potential harms. For us, this means promoting responsible business practices, expanding connectivity and accessibility, protecting democracy, and advancing a fair and inclusive society.

Over the past year, as regulators increasingly required greater transparency and process consistency across corporate supply chains and human rights efforts, we ensured compliance with reporting and due diligence directives. Going forward, we'll continue to respect global human rights and laws and take steps to mitigate the impact of our operations and our technology on the people in our value chain.

As we build and deploy more AI solutions, connectivity and accessibility are foundational. Since 2017, we've extended access to affordable high-speed internet to over 100 million people, including nearly 40 million in Africa. And we remain focused on building inclusive, accessible AI that empowers people across the spectrum of disability.

More than 4 billion people will vote this year in their respective elections, making it the biggest election year in history. At the Munich Security Conference in February, we came together with others across the tech sector and pledged to help prevent deceptive AI content from interfering with global elections. As part of this pledge, we have worked to empower campaigns, candidates, election officials, and voters to understand the risks of deceptive AI in elections and to take steps to protect themselves and democracies. To date, we've conducted deepfake trainings in over 20 countries. And our corresponding public awareness campaign has reached over 355 million people.

Lastly, we continued investing in both strategic national partnerships and community-based projects that leverage data and insights to enable changes that advance racial equity and fairness in the criminal legal system.

How can we advance sustainability?

Finally, we are on a journey to build a more sustainable future, from addressing our own environmental footprint to empowering our customers and the world with the technology needed to meet the climate challenge. Over the past year, we have seen how AI can catalyze environmental progress in remarkable ways—from increasing the capacity of transmission lines to deliver renewable power, to the discovery of new materials to support energy production and storage, to empowering the workforce with sustainability skills.

But we also recognize the resource intensity of the infrastructure needed to yield these benefits, which is why we're advancing the sustainability of AI, from design to construction to operations, all while working to improve the efficiency of these technologies. We're also investing in innovation through Microsoft's Climate Innovation Fund and our AI for Good Lab, advancing research and advocating for policies that can drive global impact.

In our latest Environmental Sustainability Report, we shared progress toward our 2030 commitments. We're on track in several areas. Where we're not yet on track, we're mobilizing to accelerate our progress toward becoming carbon negative, water positive, and zero waste, as well as to protect and preserve ecosystems.

When it comes to our carbon footprint, we continue to support clean electricity infrastructure through long-term investments to bring more power onto the grids where we operate. Since setting our carbon negative target, we have contracted over 34 gigawatts of renewable energy, including projects in 24 countries.

In our efforts to become water positive, we provided more than 1.5 million people with access to clean water and sanitation, achieving our water access target.

Our journey to zero waste includes reducing waste at our campuses and datacenters and advancing circularity for cloud hardware, packaging, and devices. Our most recent report showed we had a reuse and recycle rate of 89.4 percent for servers and components across all cloud hardware.

Finally, AI gives new opportunity for ecosystem and biodiversity management with solutions like AI-assisted bioacoustics. And we're expanding collaboration with local communities to build and operate datacenters in ways that address local challenges and create greater benefits. This work is guided by our Sustainability Standards for new construction and our Datacenter Community Pledge.

Learn more about our progress and learnings as we pursue our commitments in our annual Impact Summary.

OUR CULTURE

Just as our culture has been critical in getting us to this point, it will be critical to our success going forward. At Microsoft, we think of our culture as being both input and output. To pursue new concepts, we need new capability. To build new

capability, we need a culture that allows us to grow that capability long before it is conventional wisdom. For us, that means constantly exercising our growth mindset and confronting our fixed mindset—each one of us, every day. It is the only way we will succeed.

Our growth mindset culture helps us in our continuous pursuit of high performance. It doesn't matter what we said about our culture 10 years ago or even last year if we aren't practicing it today—by anticipating the unmet and unarticulated needs of customers; by working together as One Microsoft to deliver the best end-to-end solutions and services; and by actively seeking diversity and embracing inclusion—to ensure our workforce represents the planet we serve and the products we build always meet our customers' needs. In our latest Diversity & Inclusion Report, we share the ways our longstanding commitment to diversity and inclusion endures, and what we're learning as we continue to hire, develop, and grow a global workforce that best supports each other and our customers. This is how we thrive—as individuals, as teams, and as an organization. And, when we thrive, we can help our customers and the world thrive too.

Giving also remains core to our culture. This year, more than 106,000 employees gave \$250 million (including company match) to nearly 35,000 nonprofits in 111 countries. And our employees volunteered over 1 million hours to causes they care about. I am deeply grateful for my colleagues' dedication to making a difference. Together, we can continue to empower everyone around the world.

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In closing, this is a consequential time for our company, our industry, and the world. Ultimately, our mission requires that we translate technology into empowerment for everyone, into real-world impact. At the end of the day, that's what really matters.

Nearly two years later, I can't stop thinking about the Indian farmer I met in January 2023. He was able to apply for complex government farm subsidies using just his voice, thanks to an app built with GPT 3.5. It was remarkable. A frontier model developed on the West Coast of the US just months earlier was being used to directly improve the lives of rural farmers on the other side of the globe.

That rate of diffusion was unlike anything I had seen in my career. And the pace has only increased. Earlier this year, I was in Thailand, where I met developers using Phi-3 to optimize their operations just days after the small language model was released.

To me, that represents the true democratization of expertise. Where the internet era put information at our fingertips, AI is putting expertise at our fingertips. Impact like this is why we are in this industry, and it is what gives all of us at Microsoft deep meaning in our work.

It is why we are investing in our fundamentals, in our people, and in continued innovation—so that we can help others achieve more for the long term.

It is not an exaggeration to say that what each of us does right now with the unique opportunity we have been given will shape the future. And I look forward to seeing how all of us use Microsoft as a platform to make a difference—one customer, one community, one country at a time.



Satya Nadella
Chairman and Chief Executive Officer
October 18, 2024

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 25, 2024, there were 81,346 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, 2024, \$10.3 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,	2024		2023		2022	
First Quarter	11	\$ 3,560	17	\$ 4,600	21	\$ 6,200
Second Quarter	7	2,800	20	4,600	20	6,233
Third Quarter	7	2,800	18	4,600	26	7,800
Fourth Quarter	7	2,800	14	4,600	28	7,800
Total	32	\$ 11,960	69	\$ 18,400	95	\$ 28,033

All repurchases were made using cash resources. Shares repurchased during the first quarter of fiscal year 2022 were under the share repurchase program approved on September 18, 2019. Shares repurchased during the second quarter of fiscal year 2022 were under the share repurchase programs approved on September 18, 2019 and September 14, 2021. All other shares repurchased were under the share repurchase program approved on September 14, 2021. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards of \$5.3 billion, \$3.8 billion, and \$4.7 billion for fiscal years 2024, 2023, and 2022, respectively.

Dividends

Our Board of Directors declared the following dividends:

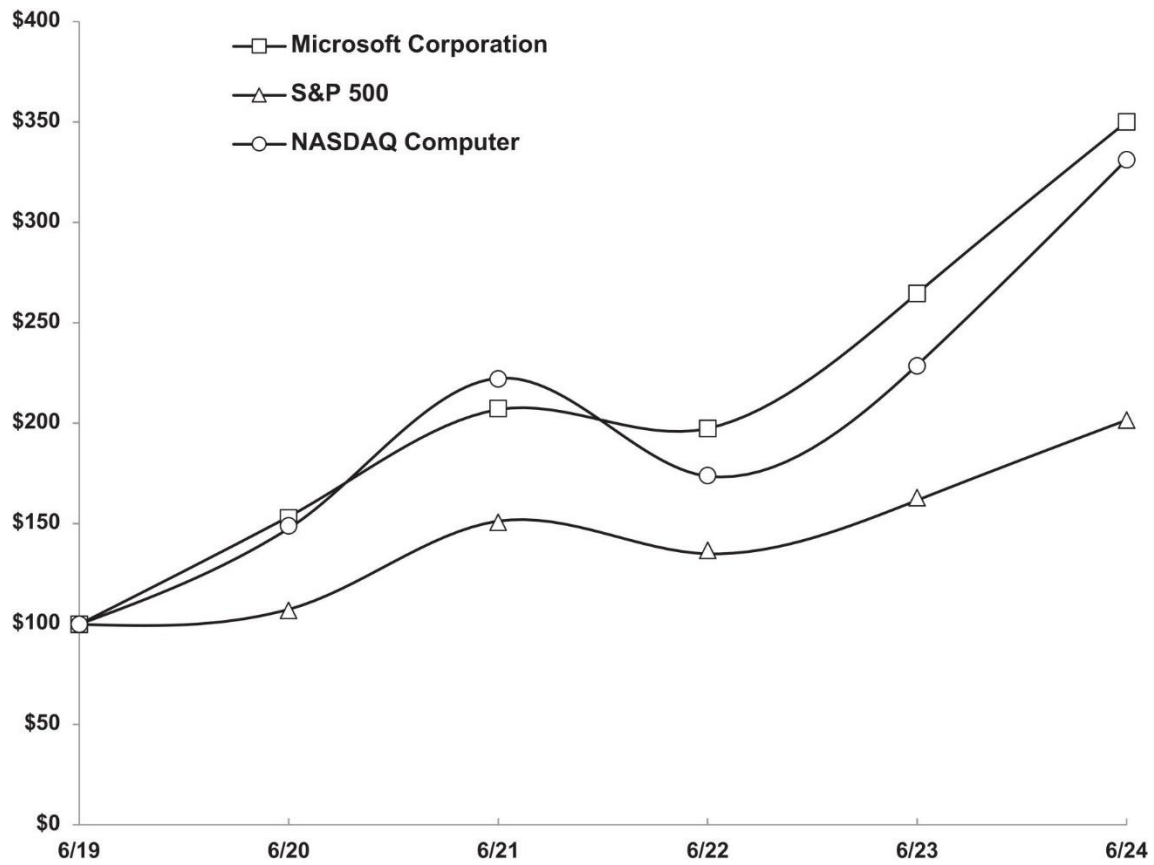
Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
Fiscal Year 2024				(In millions)
September 19, 2023	November 16, 2023	December 14, 2023	\$ 0.75	\$ 5,574
November 28, 2023	February 15, 2024	March 14, 2024	0.75	5,573
March 12, 2024	May 16, 2024	June 13, 2024	0.75	5,574
June 12, 2024	August 15, 2024	September 12, 2024	0.75	5,575
Total			\$ 3.00	\$ 22,296
Fiscal Year 2023				
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	5,051
Total			\$ 2.72	\$ 20,230

The dividend declared on June 12, 2024 was included in other current liabilities as of June 30, 2024.

STOCK PERFORMANCE

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



	6/19	6/20	6/21	6/22	6/23	6/24
Microsoft Corporation	100.00	153.80	206.72	197.60	264.54	349.91
S&P 500	100.00	107.51	151.36	135.29	161.80	201.54
NASDAQ Computer	100.00	147.90	222.50	173.91	228.85	331.25

* \$100 invested on 6/30/19 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 2024 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 committed to making digital technology and artificial intelligence (“AI”) available broadly and doing so responsibly, with a mission to empower every person and every organization on the planet to achieve more. We create platforms and tools, powered by AI, that deliver innovative solutions that meet the evolving needs of our customers. From infrastructure and data, to business applications and collaboration, we provide unique, differentiated value to customers. We strive to create local opportunity, growth, and impact in every country around the world.

We have entered a new age of AI that will fundamentally transform productivity for every individual, organization, and industry on earth, while helping us address some of our most pressing challenges. Microsoft’s AI offerings, including Copilot and our Copilot stack, are already orchestrating a new era of AI transformation, driving better business outcomes across every role and industry. 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.

We believe AI should be as empowering across communities as it is powerful, and we’re committed to ensuring it is responsibly designed and built with safety and security from the outset.

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 Microsoft 365, LinkedIn, and Dynamics 365. Microsoft 365 is an AI first platform that brings together Office, Windows, Copilot, and Enterprise Mobility + Security to help organizations empower their employees. Copilot for Microsoft 365 combines AI with business data in the Microsoft Graph and Microsoft 365 applications. Microsoft Teams is a comprehensive platform for communication and collaboration, with meetings, calling, chat, file collaboration, and the ability to bring all of the applications teams use into a single place. Microsoft Viva is an employee experience platform that brings together communications, knowledge, learning, resources, and insights.

Together, the Microsoft Cloud, Dynamics 365, Microsoft Teams, and our AI offerings bring a new era of collaborative applications for every role and business function to get insights and business impact faster. Dynamics 365 is a portfolio of intelligent business applications that delivers operational efficiency and breakthrough customer experiences. Our role-based extensions of Microsoft Copilot – Copilot for Sales, Copilot for Service, and Copilot for Finance – bring together the power of Copilot for Microsoft 365 with role-specific insights and workflow assistance to streamline business processes. Copilot Studio allows customers to customize Copilot for Microsoft 365 or build their own Copilot. Microsoft Power Platform helps domain experts drive productivity gains with low-code/no-code tools, robotic process automation, virtual agents, and business intelligence. Copilot Pro is a consumer subscription service that offers faster and more powerful AI assistance in Microsoft 365 apps and on the web. LinkedIn combines our unique data with this new generation of AI to transform the way professionals learn, sell, market, and get hired.

Build the Intelligent Cloud and Intelligent Edge Platform

Digital transformation and adoption of AI continues to revolutionize more business workstreams for organizations in every sector across the globe. 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 and AI 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. As the foundation of the Microsoft Cloud, Azure uniquely offers hybrid consistency, developer productivity, data and AI capabilities, and trusted security and compliance.

We offer supercomputing power for AI at scale to run large workloads, complemented by our rapidly expanding portfolio of AI cloud services and hardware, which includes custom-built silicon and strong partnerships with chip manufacturers. We have introduced purpose-built cloud infrastructure for AI workloads including a custom AI accelerator, Azure Maia, and a custom in-house central processing unit, Azure Cobalt.

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. We offer a wide selection of industry-leading frontier and open models, including from partners, as well as state-of-the-art tooling, and AI-optimized infrastructure, delivering the

Copilot stack for Microsoft, enterprises, and developers. Organizations large and small are deploying Azure AI solutions to achieve more at scale, more easily, with the proper enterprise-level responsible AI and safety and security protections. Azure AI Studio provides 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.

GitHub Copilot is at the forefront of AI-powered software development, giving developers a tool to write code easier and faster. From GitHub to Visual Studio, we provide a developer tool chain for everyone, no matter the technical experience, across all platforms.

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.

The Microsoft Intelligent Data Platform fully integrates databases, analytics, and governance. Microsoft Fabric is an end-to-end, unified analytics platform that brings together all the data and analytics tools that organizations need.

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

As the rate and pace of cyberthreats continue to accelerate, security is a top priority for every organization. Microsoft offers customers integrated products addressing security, compliance, identity, management, and privacy across customers' multi-cloud, application, and device assets. With Copilot for Security, Microsoft offers an AI cybersecurity product that enables security professionals to respond to cyberthreats quickly.

Windows 365 enables users to stream a full Windows experience from the Microsoft Cloud to any device.

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 performance, productivity, and creativity, including Copilot in Windows. Windows 11 security and privacy features include operating system security, application security, and user and identity security. Dev Home is an open-source experience in Windows to help developer productivity. 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. Copilot+ PCs are a new class of Windows 11 PCs that are powered by a neural processing unit. These PCs use on-device AI for enhanced performance and features.

Copilot is an AI assistant that helps users navigate the web, answer questions, and create content. Microsoft Edge is our fast and secure browser that helps protect users' data and offers enhanced browsing capabilities including quick access to AI-powered tools, apps, and more. The AI-powered Bing search engine with Copilot delivers better search, more complete answers, and the ability to generate content.

Microsoft is expanding how billions of people globally access and play video games on PC, console, mobile, and cloud. We put game development front and center, backed by innovative hardware, experiences, and a subscription service, Xbox Game Pass, that allows those games to reach more players across more devices. Activision Blizzard, Inc. ("Activision Blizzard"), a leader in game development and an interactive entertainment content publisher, joined Microsoft in October 2023.

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 AI platform 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 business processes, 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 Edge, Bing, Microsoft Teams, Microsoft 365 Consumer, 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.

Since announcing that commitment, we have seen major changes both in the technology sector and in our understanding of what it will take to meet our climate goals. New technologies, including generative AI, hold promise for new innovations that can help address the climate crisis. At the same time, the infrastructure and electricity needed for these technologies create new challenges for meeting sustainability commitments across the tech sector.

In May 2024, we released our Environmental Sustainability Report which looked back at our progress in several areas during fiscal year 2023. In four areas we are on track, and in each of these we see progress that has the potential to have global impact beyond our own sustainability work. These are:

- Reducing our direct operational emissions (Scope 1 and 2).
- Accelerating carbon removal.
- Designing for circularity to minimize waste and reusing cloud hardware.
- Improving biodiversity and protecting more land than we use.

At the same time, there are two areas where we're not yet on track, and in each of these we are intensively engaged in work to identify and pursue additional breakthroughs. These are:

- Reducing our indirect emissions (Scope 3).
- Reducing our water use and replenishing more water than we consume in our datacenter operations.

Even amid the challenges, we remain optimistic. We're encouraged by ongoing progress across our campuses and datacenters, and throughout our value chain.

Addressing Racial Injustice and Inequity

In June 2020, we outlined a series of multi-year commitments designed to address the racial injustice and inequity experienced by racial and ethnic minorities in the United States, including Black and African American communities. We remain committed to addressing racial injustice and inequity and helping improve lived experiences at Microsoft, in employees' communities, and beyond.

In fiscal year 2024, we continued to collaborate with partners and worked within neighborhoods and communities to advance projects and programs. We grew our Nonprofit Tech Acceleration for Black and African American Communities program, to help more than 3,000 local organizations in nearly 1,900 Black and African American communities use technical solutions to modernize and streamline operations. We also expanded our Technology Education and Learning Support ("TEALS") program to reach nearly 550 high schools across 21 racial equity expansion regions with the support of nearly 1,500 volunteers, 12% of whom identify as Black or African American.

We have committed \$150 million in Minority Depository Institutions and funds supporting Black and African American-owned small businesses. These commitments drive sustained impact by directly enabling an increase of funds into local communities, improving diverse, small-business access to capital, and increasing skill development. We continue to partner with diverse-owned banking partners and asset managers to catalyze growth and industry participation. Additionally, we enriched our supplier pipeline, achieving our goal to spend \$500 million with double the number of Black- and African American-owned suppliers. We have also provided 162 low- or no-interest loans to our small to medium-sized partners through our Partner Capital Fund.

We also continue to make progress toward our overall commitment to double the number of Black and African American and Hispanic and Latinx leaders in the U.S. by 2025.

Investing in Digital Skills

Microsoft's Skills for Jobs initiative aims 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. This initiative brings together classes, Career Essentials Certificates, and other resources from LinkedIn, GitHub, and Microsoft Learn, and is built on data insights drawn from LinkedIn's Economic Graph. Our goal was to train and certify 10 million learners by 2025. As of May 2024, we have surpassed that goal, training and certifying 12.6 million learners. We also launched a campaign in the United States in 2021 to help skill and recruit 250,000 people into the nation's 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. The cyber skills initiative has expanded to 27 additional countries that show elevated cyberthreat risks coupled with significant gaps in their cybersecurity workforces, where we've partnered 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. In June 2023, we launched an 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 provide greater access to digital learning events and resources. Additionally, we extended our reach in rural communities, including through our TechSpark initiative in the United States. As of June 2024, we've helped more than 2.5 million people in 92% of the world's countries learn how to use AI.

HUMAN CAPITAL RESOURCES

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. 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 culture also embeds the security of customers and Microsoft as a priority for every employee and across all of our organizations.

As of June 30, 2024, we employed approximately 228,000 people on a full-time basis, 126,000 in the U.S. and 102,000 internationally. Of the total employed people, 86,000 were in operations, including product support and consulting services, datacenter operations, and manufacturing and distribution; 81,000 were in product research and development; 45,000 were in sales and marketing; and 16,000 were in general and administration. Certain employees are subject to collective bargaining agreements.

We design our programs to attract, reward, and retain top talent, enable our employees' continual growth, and reinforce our culture and values. Our total compensation opportunity is highly differentiated and market competitive. Our intended result is a global performance and development approach that fosters our culture, drives company performance, and competitive compensation that ensures equitable pay by role while supporting pay for performance.

Diversity and inclusion are core to our business. As reported in our Global Diversity and Inclusion Reports, we monitor pay equity and career progress across multiple dimensions. We encourage every person at Microsoft to play an active role in creating an inclusive environment.

We have invested significantly in employee wellbeing and offer a differentiated benefits package which includes many physical, emotional, and financial wellness programs. Our Occupational Health and Safety program helps to protect employees' safety while they are working. We also have introduced Hybrid Workplace Flexibility guidance to better support leaders, managers, and employees in hybrid work scenarios.

We believe providing employees with access to continual learning enables them to drive impact for the company. We provide individuals and teams with access to first and third-party content resources across professions, disciplines, and roles, and offer skilling opportunities to support employees' growth while driving organizations' needs.

Our employee listening systems enable us to gather feedback directly from our workforce to inform our programs and employee needs globally, giving us real-time insights into ways we can support our employees. As a company, we will continue to leverage data and research to inform decision making, balancing the needs of the business, team, and individual.

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 Copilot for Microsoft 365.
- Office Consumer, including Microsoft 365 Consumer and Copilot Pro 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, 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 AI and 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 with new features including AI tools, 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 designed to offer AI-enabled insights and productivity: 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, access knowledge, 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. Growth will depend on our ability to increase the number of LinkedIn members and our ability to continue offering insight and AI-enabled services that provide value for our members and increase their engagement. LinkedIn revenue is mainly affected by demand from enterprises and professionals 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"), and supply chain management, as well as other low code application development platforms and AI offerings, 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 our low code development platforms, such as Power Apps and Power Automate.

Competition

Competitors to Office include software and global application vendors, such as Apple, Cisco Systems, Google, Meta, Proofpoint, Slack, Symantec, Zoom, and numerous web-based and mobile application competitors as well as local application developers. Apple distributes versions of its pre-installed application software, such as email and calendar products, through its PCs, tablets, and phones. Cisco Systems is using its position in enterprise communications equipment to grow its unified communications business. Google provides a hosted messaging and productivity suite. Meta offers communication tools to enable productivity and engagement within organizations. Proofpoint and Symantec provide security solutions across email security, information protection, and governance. Slack provides teamwork and collaboration software. Zoom offers videoconferencing and cloud phone solutions. 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, SAP, Service Now, UI Path, and WorkDay.

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 and partner services, including Enterprise Support Services, Industry Solutions, Nuance professional services, Microsoft Partner Network, and Learning Experience.

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, Internet of Things ("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. With Azure's purpose-built, AI-optimized infrastructure, customers can use a variety of large language models and developer tools to create 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 and Partner Services

Enterprise and Partner Services, including Enterprise Support Services, Industry Solutions, Nuance professional services, Microsoft Partner Network, and Learning Experience, 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, Broadcom, Google, IBM, Oracle, 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 and Google, as well as products from other emerging competitors, including Anthropic, OpenAI, Meta, and other open source offerings, many of which are also current or potential partners. Our Azure Security offerings include our cloud security solution and security information and event management solution, which compete with companies such as Palo Alto Networks and Cisco. 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 and nearly all computer manufacturers offer server hardware for the Linux operating system.

We compete to provide enterprise-wide computing and point solutions with numerous commercial software vendors that offer solutions and middleware technology platforms, software applications for connectivity, security, hosting, database, and e-business servers. IBM and Oracle lead a group of companies that compete with our enterprise-wide computing solutions. Commercial competitors for our server applications for PC-based distributed client-server environments include Broadcom, 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 Databricks, IBM, Oracle, SAP, Snowflake, and other companies. Our system management solutions compete with server management and server virtualization platform providers, such as BMC, Broadcom, Hewlett-Packard, and IBM. 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 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 and Partner 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 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 Internet of Things.
- Devices, including Surface, HoloLens, and PC accessories.
- Gaming, including Xbox hardware and Xbox content and services, comprising first-party content (such as Activision Blizzard) 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 Copilot), 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.
- Growth of the AI PC category
- 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 Microsoft 365 and our 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, such as Surface (including Copilot+ PCs), 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 game content is developed through 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.

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 search engine with Copilot 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, and Microsoft Defender for Endpoint competes with CrowdStrike on endpoint security solutions. 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 content from our own first-party game franchises as well as other digital content offerings.

Our Search and news advertising business competes with Google, OpenAI, 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, customer lifecycle operations, information processing, and vendor management and logistics. The centers in Ireland and Romania support the African, European, and Middle East regions; the centers in India and Ireland support the Asia-Pacific region; and the centers in Arlington, Virginia, Atlanta, Georgia, Charlotte, North Carolina, Fargo, North Dakota, Fort Lauderdale, Florida, Redmond, Washington, Reno, Nevada, and San Jose, Costa Rica support the Americas 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, 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, such as quantum computing and advanced AI for science.
- *Experiences and Devices* – focuses on delivering high value end-user experiences across our products, services, and devices, including Microsoft 365, Windows, Microsoft Teams, and the Surface line of devices.
- *Microsoft AI* – focuses on delivering online experiences targeted at consumers (including Bing, Copilot, Start/MSN, and other advertising-based services) and developing advanced AI models.
- *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. This engineering group includes Microsoft Research, one of the world's largest corporate research organizations, which focuses on fundamental research in AI, computer science, and a broad range of other disciplines.
- *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 63,000 U.S. and international patents issued and over 23,000 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 engagement with open source software also causes 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. This includes continuing to support fundamental research, which provides us with 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 Microsoft 365 Consumer.

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 of varying sizes that want to purchase our cloud services and on-premise software. We license these 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. These volume licensing programs have varying programmatic requirements and benefits to best meet the needs of our customers.

Software Assurance ("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 required to be purchased 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 Microsoft products and services organization-wide over a three-year period. Organizations can elect to purchase perpetual licenses (covered with SA) and/or subscribe to cloud services.

Microsoft Customer Agreement

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

Microsoft Online Subscription Agreement

Microsoft Online Subscription Agreements are designed for small and medium organizations that want to subscribe to, activate, provision, and maintain cloud services seamlessly and directly via the web. These agreements allow 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 hosted applications and software services to their end customers. Partners license software over a three-year period and are billed monthly based on units licensed.

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.

GOVERNMENT REGULATION

We are subject to a wide range of laws, regulations, and legal requirements in the U.S. and globally, including those that may apply to our products and online services offerings, and those that impose requirements related to user privacy, telecommunications, data storage and protection, advertising, and online content. How these laws and regulations apply to our business is often unclear, subject to change over time, and sometimes may be inconsistent from jurisdiction to jurisdiction. To comply with the accelerating global regulatory obligations, we established a regulatory governance framework and to create a repeatable system-focused approach to regulatory governance with an initial focus on four domains: Responsible AI, Privacy, Digital Safety, and Cybersecurity. The framework is designed to help us maintain customer trust and confidence in our products, remain in compliance with regulators around the globe, and effectively scale our capability to address the growing number of complex regulations. Through the framework, our legal and regulatory subject matter experts ingest regulations, develop standards and implementation guidance, and, when appropriate, work with our engineers to develop and implement products to monitor compliance. Our business teams, with legal support, manage the compliance programs and prepare external regulatory and commercial reporting, and our internal audit teams conduct reviews of our programs and processes. While we intended to create a unified approach to regulatory compliance, some of the programs and processes established pursuant to the framework are tailored to meet specific regulatory

obligations, such as with the creation of independent compliance functions required by the European Union (“EU”) Digital Markets Act and the EU Digital Services Act, which oversee, monitor, and assess the company’s compliance with these acts.

For a description of the risks we face related to regulatory matters, refer to Risk Factors in our fiscal year 2024 Form 10-K.

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, 2024 compared to the year ended June 30, 2023. For a discussion of the year ended June 30, 2023 compared to the year ended June 30, 2022, 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, 2023.

OVERVIEW

Microsoft is a technology company committed to making digital technology and artificial intelligence ("AI") available broadly and doing so responsibly, with a mission to empower every person and every organization on the planet to achieve more. We create platforms and tools, powered by AI, that deliver innovative solutions that meet the evolving needs of our customers.

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 2024 compared with fiscal year 2023 included:

- Microsoft Cloud revenue increased 23% to \$137.4 billion.
- Office Commercial products and cloud services revenue increased 14% driven by Office 365 Commercial growth of 16%.
- Office Consumer products and cloud services revenue increased 4% and Microsoft 365 Consumer subscribers grew to 82.5 million.
- LinkedIn revenue increased 9%.
- Dynamics products and cloud services revenue increased 19% driven by Dynamics 365 growth of 24%.
- Server products and cloud services revenue increased 22% driven by Azure and other cloud services growth of 30%.
- Windows revenue increased 8% with Windows original equipment manufacturer licensing ("Windows OEM") revenue growth of 7% and Windows Commercial products and cloud services revenue growth of 11%.
- Devices revenue decreased 15%.
- Xbox content and services revenue increased 50% driven by 44 points of net impact from the Activision Blizzard Inc. ("Activision Blizzard") acquisition. The net impact reflects the change of Activision Blizzard content from third-party to first-party.
- Search and news advertising revenue excluding traffic acquisition costs increased 12%.

On October 13, 2023, we completed our acquisition of Activision Blizzard for a total purchase price of \$75.4 billion, consisting primarily of cash. The financial results of Activision Blizzard have been included in our consolidated financial statements since the date of the acquisition. Activision Blizzard is reported as part of our More Personal Computing segment. Refer to Note 8 – Business Combinations of the Notes to Financial Statements for further discussion.

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 did not have a material impact on reported revenue and expenses from our international operations in fiscal year 2024.

Refer to Risk Factors in our fiscal year 2024 Form 10-K for a discussion of these factors and other risks.

Seasonality

Our revenue fluctuates quarterly and is generally higher in the fourth quarter of our fiscal year. Fourth quarter revenue is driven by a higher volume of multi-year 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.

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.

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 2024, we made updates to the presentation and method of calculation for certain metrics, revising our Microsoft Cloud revenue metric to include revenue growth and expanding our Microsoft 365 Consumer subscribers metric to include Microsoft 365 Basic subscribers, aligning with how we manage our business.

Commercial

Our commercial business primarily consists of Server products and cloud services, Office Commercial, Windows Commercial, the commercial portion of LinkedIn, Enterprise and partner 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 and revenue growth	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 Copilot for Microsoft 365
Office Consumer products and cloud services revenue growth	Revenue from Office Consumer products and cloud services, including Microsoft 365 Consumer and Copilot Pro 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 and Copilot Pro 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, Power Apps, and Power Automate; and on-premises ERP and CRM applications
LinkedIn revenue growth	Revenue from LinkedIn, including Talent Solutions, Marketing Solutions, Premium Subscriptions, and Sales Solutions
Server products and cloud services revenue growth	Revenue from 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

More Personal Computing

Metrics related to our More Personal Computing segment assess the performance of key lines of business within this segment. These metrics provide strategic product insights which allow us to assess the performance across our commercial and consumer businesses. As we have diversity of target audiences and sales motions within the Windows business, we monitor metrics that are reflective of those varying motions.

Windows OEM revenue growth	Revenue from sales of Windows Pro and non-Pro licenses sold through the OEM channel
Windows Commercial products and cloud services revenue growth	Revenue from Windows Commercial products and cloud services, comprising volume licensing of the Windows operating system, Windows cloud services, and other Windows commercial offerings
Devices revenue growth	Revenue from Devices, including Surface, HoloLens, and PC accessories
Xbox content and services revenue growth	Revenue from Xbox content and services, comprising first-party content (such as Activision Blizzard) 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 revenue (ex TAC) growth	Revenue from search and news advertising excluding traffic acquisition costs ("TAC") paid to Bing Ads network publishers and news partners

SUMMARY RESULTS OF OPERATIONS

(In millions, except percentages and per share amounts)	2024	2023	Percentage Change
Revenue	\$ 245,122	\$ 211,915	16%
Gross margin	171,008	146,052	17%
Operating income	109,433	88,523	24%
Net income	88,136	72,361	22%
Diluted earnings per share	11.80	9.68	22%
Adjusted gross margin (non-GAAP)	171,008	146,204	17%
Adjusted operating income (non-GAAP)	109,433	89,694	22%
Adjusted net income (non-GAAP)	88,136	73,307	20%
Adjusted diluted earnings per share (non-GAAP)	11.80	9.81	20%

Adjusted gross margin, operating income, net income, and diluted earnings per share ("EPS") are non-GAAP financial measures. Prior year non-GAAP financial measures exclude the impact of a \$1.2 billion charge in the second quarter of fiscal year 2023 ("Q2 charge"), which included employee severance expenses, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. Refer to the Non-GAAP Financial Measures section below for a reconciliation of our financial results reported in accordance with GAAP to non-GAAP financial results.

Fiscal Year 2024 Compared with Fiscal Year 2023

Revenue increased \$33.2 billion or 16% driven by growth across each of our segments. Intelligent Cloud revenue increased driven by Azure. Productivity and Business Processes revenue increased driven by Office 365 Commercial. More Personal Computing revenue increased driven by Gaming.

Cost of revenue increased \$8.3 billion or 13% driven by growth in Microsoft Cloud and Gaming, offset in part by a decline in Devices.

Gross margin increased \$25.0 billion or 17% driven by growth across each of our segments.

- Gross margin percentage increased slightly. Excluding the impact of the change in accounting estimate for the useful lives of our server and network equipment, gross margin percentage increased 2 points driven by improvement in More Personal Computing.
- Microsoft Cloud gross margin percentage decreased slightly to 71%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage increased slightly driven by improvements in Azure and Office 365 Commercial, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.

Operating expenses increased \$4.0 billion or 7% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering, offset in part by the prior year Q2 charge.

Operating income increased \$20.9 billion or 24% driven by growth across each of our segments.

Prior year gross margin, operating income, net income, and diluted EPS were negatively impacted by the Q2 charge, which resulted in decreases of \$152 million, \$1.2 billion, \$946 million, and \$0.13, respectively.

SEGMENT RESULTS OF OPERATIONS

(In millions, except percentages)	2024	2023	Percentage Change
Revenue			
Productivity and Business Processes	\$ 77,728	\$ 69,274	12%
Intelligent Cloud	105,362	87,907	20%
More Personal Computing	62,032	54,734	13%
Total	<u>\$ 245,122</u>	<u>\$ 211,915</u>	16%
Operating Income			
Productivity and Business Processes	\$ 40,540	\$ 34,189	19%
Intelligent Cloud	49,584	37,884	31%
More Personal Computing	19,309	16,450	17%
Total	<u>\$ 109,433</u>	<u>\$ 88,523</u>	24%

Reportable Segments

Fiscal Year 2024 Compared with Fiscal Year 2023

Productivity and Business Processes

Revenue increased \$8.5 billion or 12%.

- Office Commercial products and cloud services revenue increased \$5.8 billion or 14%. Office 365 Commercial revenue grew 16% with seat growth of 7%, driven by small and medium business and frontline worker offerings, as well as growth in revenue per user. Office Commercial products revenue declined 16% driven by continued customer shift to cloud offerings.
- Office Consumer products and cloud services revenue increased \$237 million or 4%. Microsoft 365 Consumer subscribers grew 10% to 82.5 million.
- LinkedIn revenue increased \$1.4 billion or 9% driven by growth across all lines of business – Talent Solutions, Premium Subscriptions, Marketing Solutions, and Sales Solutions.
- Dynamics products and cloud services revenue increased \$1.0 billion or 19% driven by Dynamics 365. Dynamics 365 revenue grew 24% driven by growth across all workloads.

Operating income increased \$6.4 billion or 19%.

- Gross margin increased \$6.5 billion or 12% driven by growth in Office 365 Commercial. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly driven by improvement in Office 365 Commercial.
- Operating expenses increased \$159 million or 1%.

Intelligent Cloud

Revenue increased \$17.5 billion or 20%.

- Server products and cloud services revenue increased \$17.8 billion or 22% driven by Azure and other cloud services. Azure and other cloud services revenue grew 30% driven by growth in our consumption-based services. Server products revenue increased 3% driven by continued demand for our hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments.
- Enterprise and partner services revenue decreased \$306 million or 4% driven by declines in Enterprise Support Services and Industry Solutions.

Operating income increased \$11.7 billion or 31%.

- Gross margin increased \$11.6 billion or 19% driven by growth in Azure. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly primarily driven by improvement in Azure, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.
- Operating expenses decreased slightly primarily driven by the prior year Q2 charge, offset in part by investments in Azure.

More Personal Computing

Revenue increased \$7.3 billion or 13%.

- Windows revenue increased \$1.7 billion or 8% driven by growth in Windows Commercial and Windows OEM. Windows Commercial products and cloud services revenue increased 11% driven by demand for Microsoft 365. Windows OEM revenue increased 7%.
- Gaming revenue increased \$6.0 billion or 39% driven by growth in Xbox content and services. Xbox content and services revenue increased 50% driven by 44 points of net impact from the Activision Blizzard acquisition. Xbox hardware revenue decreased 13% driven by lower volume of consoles sold.
- Search and news advertising revenue increased \$418 million or 3%. Search and news advertising revenue excluding traffic acquisition costs increased 12% driven by higher search volume.
- Devices revenue decreased \$815 million or 15%.

Operating income increased \$2.9 billion or 17%.

- Gross margin increased \$6.8 billion or 23% driven by growth in Gaming, with 10 points of net impact from the Activision Blizzard acquisition, as well as growth in Windows. Gross margin percentage increased driven by sales mix shift to higher margin businesses and improvement in Devices.
- Operating expenses increased \$3.9 billion or 31% driven by Gaming, with 34 points of growth from the Activision Blizzard acquisition.

OPERATING EXPENSES

Research and Development

(In millions, except percentages)	2024	2023	Percentage Change
Research and development	\$ 29,510	\$ 27,195	9%
As a percent of revenue	12%	13%	(1)ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs and the amortization of purchased software code and services content.

Fiscal Year 2024 Compared with Fiscal Year 2023

Research and development expenses increased \$2.3 billion or 9% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering.

Sales and Marketing

(In millions, except percentages)	2024	2023	Percentage Change
Sales and marketing	\$ 24,456	\$ 22,759	7%
As a percent of revenue	10%	11%	(1)ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, trade shows, seminars, and other programs.

Fiscal Year 2024 Compared with Fiscal Year 2023

Sales and marketing expenses increased \$1.7 billion or 7% driven by Gaming, with 6 points of growth from the Activision Blizzard acquisition.

General and Administrative

(In millions, except percentages)	2024	2023	Percentage Change
General and administrative	\$ 7,609	\$ 7,575	0%
As a percent of revenue	3%	4%	(1)ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, employee severance expense incurred as part of a corporate program, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

Fiscal Year 2024 Compared with Fiscal Year 2023

General and administrative expenses increased slightly as growth from the Activision Blizzard acquisition was offset in part by the prior year Q2 charge.

OTHER INCOME (EXPENSE), NET

The components of other income (expense), net were as follows:

(In millions)

Year Ended June 30,	2024	2023
Interest and dividends income	\$ 3,157	\$ 2,994
Interest expense	(2,935)	(1,968)
Net recognized gains (losses) on investments	(118)	260
Net losses on derivatives	(187)	(456)
Net gains (losses) on foreign currency remeasurements	(244)	181
Other, net	(1,319)	(223)
Total	<u>\$ (1,646)</u>	<u>\$ 788</u>

We use derivative instruments to manage risks related to foreign currencies, interest rates, equity prices, and credit; to enhance investment returns; and to facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedging instruments are primarily recognized in other income (expense), net.

Fiscal Year 2024 Compared with Fiscal Year 2023

Interest and dividends income increased due to higher yields. Interest expense increased due to the issuance of commercial paper. Net recognized losses on investments increased primarily due to higher equity impairments and lower gains on equity investments. Net losses on derivatives decreased primarily due to lower losses on equity derivatives. Other, net primarily reflects net recognized losses on equity method investments.

INCOME TAXES

Effective Tax Rate

Our effective tax rate for fiscal years 2024 and 2023 was 18% and 19%, respectively. The decrease in our effective tax rate was primarily due to tax benefits from tax law changes, including the impact from the issuance of Notice 2023-55 and Notice 2023-80 by the Internal Revenue Service ("IRS") and U.S. Treasury Department. Notice 2023-55, issued in the first quarter of fiscal year 2024, delayed the effective date of final foreign tax credit regulations to fiscal year 2024 for Microsoft. Notice 2023-80, issued in the second quarter of fiscal year 2024, further delayed the effective date of final foreign tax credit regulations indefinitely.

Our effective tax rate was lower than the U.S. federal statutory rate, primarily due to earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations center in Ireland.

The mix of income before income taxes between the U.S. and foreign countries impacted our effective tax rate as a result of the geographic distribution of, and customer demand for, our products and services. In fiscal year 2024, our U.S. income before income taxes was \$62.9 billion and our foreign income before income taxes was \$44.9 billion. In fiscal year 2023, our U.S. income before income taxes was \$52.9 billion and our foreign income before income taxes was \$36.4 billion.

The Organisation for Economic Co-operation and Development ("OECD") published its model rules "Tax Challenges Arising From the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two)" which established a global minimum corporate tax rate of 15% for certain multinational enterprises. Many countries have implemented or are in the process of implementing the Pillar Two legislation, which will apply to Microsoft beginning in fiscal year 2025. While we do not currently estimate a material impact to our consolidated financial statements, we continue to monitor the impact as countries implement legislation and the OECD provides additional guidance.

Uncertain Tax Positions

We remain under audit by the IRS for tax years 2014 to 2017. With respect to the audit for tax years 2004 to 2013, on September 26, 2023, we received Notices of Proposed Adjustment (“NOPAs”) from the IRS. The primary issues in the NOPAs relate to intercompany transfer pricing. In the NOPAs, the IRS is seeking an additional tax payment of \$28.9 billion plus penalties and interest. As of June 30, 2024, we believe our allowances for income tax contingencies are adequate. We disagree with the proposed adjustments and will vigorously contest the NOPAs through the IRS’s administrative appeals office and, if necessary, judicial proceedings. We do not expect a final resolution of these issues in the next 12 months. Based on the information currently available, we do not anticipate a significant increase or decrease to our income tax contingencies for these issues within the next 12 months.

We are subject to income tax in many jurisdictions outside the U.S. Our operations in certain jurisdictions remain subject to examination for tax years 1996 to 2023, some of which are currently under audit by local tax authorities. The resolution of each of these audits is not expected to be material to our consolidated financial statements.

NON-GAAP FINANCIAL MEASURES

Adjusted gross margin, operating income, net income, and diluted EPS are non-GAAP financial measures. Prior year non-GAAP financial measures exclude the impact of the Q2 charge, which includes employee severance expenses, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. We believe these non-GAAP measures aid investors by providing additional insight into our operational performance and help clarify trends affecting our business. For comparability of reporting, management considers non-GAAP measures in conjunction with GAAP financial results in evaluating business performance. These non-GAAP financial measures presented should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

The following table reconciles our financial results reported in accordance with GAAP to non-GAAP financial results:

(In millions, except percentages and per share amounts)	2024	2023	Percentage Change
Gross margin	\$ 171,008	\$ 146,052	17%
Severance, hardware-related impairment, and lease consolidation costs	0	152	*
Adjusted gross margin (non-GAAP)	\$ 171,008	\$ 146,204	17%
Operating income	\$ 109,433	\$ 88,523	24%
Severance, hardware-related impairment, and lease consolidation costs	0	1,171	*
Adjusted operating income (non-GAAP)	\$ 109,433	\$ 89,694	22%
Net income	\$ 88,136	\$ 72,361	22%
Severance, hardware-related impairment, and lease consolidation costs	0	946	*
Adjusted net income (non-GAAP)	\$ 88,136	\$ 73,307	20%
Diluted earnings per share	\$ 11.80	\$ 9.68	22%
Severance, hardware-related impairment, and lease consolidation costs	0	0.13	*
Adjusted diluted earnings per share (non-GAAP)	\$ 11.80	\$ 9.81	20%

* Not meaningful.

LIQUIDITY AND CAPITAL RESOURCES

We expect existing cash, cash equivalents, short-term investments, cash flows from operations, and access to capital markets to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as dividends, share repurchases, debt maturities, material capital expenditures, and the transition tax related to the Tax Cuts and Jobs Act (“TCJA”), for at least the next 12 months and thereafter for the foreseeable future.

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and short-term investments totaled \$75.5 billion and \$111.3 billion as of June 30, 2024 and 2023, respectively. Equity and other investments were \$14.6 billion and \$9.9 billion as of June 30, 2024 and 2023, respectively. Our short-term investments are primarily intended to facilitate liquidity and capital preservation. They consist predominantly of highly liquid investment-grade fixed-income securities, diversified among industries and individual issuers. The investments are predominantly U.S. dollar-denominated securities, but also include foreign currency-denominated securities to diversify risk. Our fixed-income investments are exposed to interest rate risk and credit risk. The credit risk and average maturity of our fixed-income portfolio are managed to achieve economic returns that correlate to certain fixed-income indices. The settlement risk related to these investments is insignificant given that the short-term investments held are primarily highly liquid investment-grade fixed-income securities.

Valuation

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine the fair value of our financial instruments. This pricing methodology applies to our Level 1 investments, such as U.S. government securities, common and preferred stock, and mutual funds. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. This pricing methodology applies to our Level 2 investments, such as commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Level 3 investments are valued using internally-developed models with unobservable inputs. Assets and liabilities measured at fair value on a recurring basis using unobservable inputs are an immaterial portion of our portfolio.

A majority of our investments are priced by pricing vendors and are generally Level 1 or Level 2 investments as these vendors either provide a quoted market price in an active market or use observable inputs for their pricing without applying significant adjustments. Broker pricing is used mainly when a quoted price is not available, the investment is not priced by our pricing vendors, or when a broker price is more reflective of fair values in the market in which the investment trades. Our broker-priced investments are generally classified as Level 2 investments because the broker prices these investments based on similar assets without applying significant adjustments. In addition, all our broker-priced investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments. Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include model validation, review of key model inputs, analysis of period-over-period fluctuations, and independent recalculation of prices where appropriate.

Cash Flows

Cash from operations increased \$31.0 billion to \$118.5 billion for fiscal year 2024, primarily due to an increase in cash received from customers. Cash used in financing decreased \$6.2 billion to \$37.8 billion for fiscal year 2024, primarily due to a \$5.0 billion decrease in common stock repurchases and a \$3.3 billion increase in proceeds from issuance of debt, net of repayments, offset in part by a \$2.0 billion increase in dividends paid. Cash used in investing increased \$74.3 billion to \$97.0 billion for fiscal year 2024, primarily due to a \$67.5 billion increase in cash used for acquisitions of companies, net of cash acquired, and purchases of intangible and other assets and a \$16.4 billion increase in additions to property and equipment.

Debt Proceeds

We issue debt to take advantage of favorable pricing and liquidity in the debt markets, reflecting our credit rating. The proceeds of these issuances were or will be used for general corporate purposes, which may include, among other things, funding for working capital, capital expenditures, repurchases of capital stock, acquisitions, and repayment of existing debt. Refer to Note 11 – Debt of the Notes to Financial Statements for further discussion.

Unearned Revenue

Unearned revenue comprises mainly unearned revenue related to volume licensing programs, which may include Software Assurance ("SA") and cloud services. Unearned revenue is generally invoiced annually at the beginning of each contract period for multi-year agreements and recognized ratably over the coverage period. Unearned revenue also includes

payments for other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. Refer to Note 1 – Accounting Policies of the Notes to Financial Statements for further discussion.

The following table outlines the expected future recognition of unearned revenue as of June 30, 2024:

(In millions)

Three Months Ending	
September 30, 2024	\$ 22,529
December 31, 2024	17,664
March 31, 2025	12,076
June 30, 2025	5,313
Thereafter	2,602
Total	<u>\$ 60,184</u>

If our customers choose to license cloud-based versions of our products and services rather than licensing transaction-based products and services, the associated revenue will shift from being recognized at the time of the transaction to being recognized over the subscription period or upon consumption, as applicable. Refer to Note 13 – Unearned Revenue of the Notes to Financial Statements for further discussion.

Material Cash Requirements and Other Obligations

Contractual Obligations

The following table summarizes the payments due by fiscal year for our outstanding contractual obligations as of June 30, 2024:

(In millions)	2025	Thereafter	Total
Long-term debt: ^(a)			
Principal payments	\$ 2,250	\$ 48,971	\$ 51,221
Interest payments	1,618	27,041	28,659
Construction commitments ^(b)	29,892	5,499	35,391
Operating and finance leases, including imputed interest ^(c)	12,250	160,475	172,725
Purchase commitments ^(d)	68,280	3,742	72,022
Total	<u>\$ 114,290</u>	<u>\$ 245,728</u>	<u>\$ 360,018</u>

(a) Refer to Note 11 – Debt of the Notes to Financial Statements.

(b) Refer to Note 7 – Property and Equipment of the Notes to Financial Statements.

(c) Refer to Note 14 – Leases of the Notes to Financial Statements.

(d) Purchase commitments primarily relate to datacenters and include open purchase orders and take-or-pay contracts that are not presented as construction commitments above.

Income Taxes

As a result of the TCJA, we are required to pay a one-time transition tax on deferred foreign income not previously subject to U.S. income tax. Under the TCJA, the transition tax is payable in interest-free installments over eight years, with 8% due in each of the first five years, 15% in year six, 20% in year seven, and 25% in year eight. As of June 30, 2024, we had a remaining transition tax liability of \$7.6 billion, of which \$3.8 billion is short-term and payable in the first quarter of fiscal year 2025.

Share Repurchases

During fiscal years 2024 and 2023, we repurchased 32 million shares and 69 million shares of our common stock for \$12.0 billion and \$18.4 billion, respectively, through our share repurchase program. All repurchases were made using cash resources. As of June 30, 2024, \$10.3 billion remained of our \$60 billion share repurchase program. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements for further discussion.

Dividends

During fiscal years 2024 and 2023, our Board of Directors declared dividends totaling \$22.3 billion and \$20.2 billion, respectively. We intend to continue returning capital to shareholders in the form of dividends, subject to declaration by our Board of Directors. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements for further discussion.

Other Planned Uses of Capital

We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology, as well as acquisitions that align with our business strategy. Additions to property and equipment will continue, including new facilities, datacenters, and computer systems for research and development, sales and marketing, support, and administrative staff. We expect capital expenditures to increase in coming years to support growth in our cloud offerings and our investments in AI infrastructure and training. We have operating and finance leases for datacenters, corporate offices, research and development facilities, Microsoft Experience Centers, and certain equipment. We have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of capital resources.

RECENT ACCOUNTING GUIDANCE

Refer to Note 1 – Accounting Policies of the Notes to Financial Statements for further discussion.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Critical accounting estimates are those estimates that involve a significant level of estimation uncertainty and could have a material impact on our financial condition or results of operations. We have critical accounting estimates in the areas of revenue recognition, impairment of investment securities, goodwill, research and development costs, legal and other contingencies, income taxes, and business combinations – valuation of intangible assets.

Revenue Recognition

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. When a cloud-based service includes both on-premises software licenses and cloud services, judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud service and recognized over time. Certain cloud services, primarily Office 365, depend on a significant level of integration, interdependency, and interrelation between the desktop applications and cloud services, and are accounted for together as one performance obligation. Revenue from Office 365 is recognized ratably over the period in which the cloud services are provided.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. We use a single amount to estimate SSP for items that are not sold separately, including on-premises licenses sold with SA or software updates provided at no additional charge. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount to be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

Due to the various benefits from and the nature of our SA program, judgment is required to assess the pattern of delivery, including the exercise pattern of certain benefits across our portfolio of customers.

Our products are generally sold with a right of return, we may provide other credits or incentives, and in certain instances we estimate customer usage of our products and services, which are accounted for as variable consideration when determining the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period if additional information becomes available. Changes to our estimated variable consideration were not material for the periods presented.

Impairment of Investment Securities

We review debt investments quarterly for credit losses and impairment. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the extent to which the fair value is less than cost. This determination requires significant judgment. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. In addition, we consider specific adverse conditions related to the financial health of, and business outlook for, the investee. If we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery, then a decline in fair value below cost is recorded as an impairment charge in other income (expense), net and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

Equity investments without readily determinable fair values are written down to fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than carrying value. We perform a qualitative assessment on a periodic basis. We are required to estimate the fair value of the investment to determine the amount of the impairment loss. Once an investment is determined to be impaired, an impairment charge is recorded in other income (expense), net.

Goodwill

We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (May 1) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital.

The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit.

