

Annual Report 2022



Dear shareholders, colleagues, customers, and partners:

We are living through a period of historic economic, societal, and geopolitical change. The world in 2022 looks nothing like the world in 2019. As I write this, inflation is at a 40-year high, supply chains are stretched, and the war in Ukraine is ongoing. At the same time, we are entering a technological era with the potential to power awesome advancements across every sector of our economy and society. As the world's largest software company, this places us at a historic intersection of opportunity and responsibility to the world around us.

Our mission to empower every person and every organization on the planet to achieve more has never been more urgent or more necessary. For all the uncertainty in the world, one thing is clear: People and organizations in every industry are increasingly looking to digital technology to overcome today's challenges and emerge stronger. And no company is better positioned to help them than Microsoft.

Every day this past fiscal year I have had the privilege to witness our customers use our platforms and tools to connect what technology *can* do with what the world *needs* it to do.

Here are just a few examples:

- Ferrovial, which builds and manages some of the world's busiest airports and highways, is using our cloud infrastructure to build safer roads as it prepares for a future of autonomous transportation.
- Peace Parks Foundation, a nonprofit helping protect natural ecosystems in Southern Africa, is using Microsoft Dynamics 365 and Power BI to secure essential funding, as well as our Azure AI and IoT solutions to help rangers scale their park maintenance and wildlife crime prevention work.
- One of the world's largest robotics companies, Kawasaki Heavy Industries, is using the breadth of our tools—from Azure IoT and HoloLens—to create an industrial metaverse solution that brings its distributed workforce together with its network of connected equipment to improve productivity and keep employees safe.
- Globo, the biggest media and TV company in Brazil, is using Power Platform to empower its employees to build their own solutions for everything from booking sets to setting schedules.
- And Ørsted, which produces a quarter of the world's wind energy, is using the Microsoft Intelligent Data Platform to turn data from its offshore turbines into insights for predictive maintenance.

Amid this dynamic environment, we delivered record results in fiscal year 2022: We reported \$198 billion in revenue and \$83 billion in operating income. And the Microsoft Cloud surpassed \$100 billion in annualized revenue for the first time.

OUR RESPONSIBILITY

As a corporation, our purpose and actions must be aligned with addressing the world's problems, not creating new ones. At our very core, we need to deliver innovation that helps drive broad economic growth. We, as a company, will do well when the world around us does well.

That's what I believe will lead to widespread human progress and ultimately improve the lives of everyone. There is no more powerful input than digital technology to drive the world's economic output. This is the core thesis for our being as a company, but it's not enough. As we drive global economic growth, we must also commit to creating a more inclusive, equitable, sustainable, and trusted future.

Support inclusive economic growth

We must ensure the growth we drive reaches every person, organization, community, and country. This starts with increasing access to digital skills. This year alone, more than 23 million people accessed digital skills training as part of our global skills initiative.

But skills alone aren't enough—we need to help people better prepare for and connect to jobs. That's why we've committed to equip 10 million people from underserved communities with skills for jobs in the digital economy by 2025.

One area of digital skills has become especially critical: cybersecurity. Cybersecurity is a significant threat for governments, businesses, and individuals around the world, yet there simply aren't enough people with cybersecurity skills to fill open jobs.

To help address this, we've committed to skill and recruit 250,000 people into the US cybersecurity workforce by 2025—especially those underrepresented in the field. And we're helping an additional 24 countries with substantial cybersecurity workforce shortages close their gaps too.

We also continue to deliver affordable, relevant cloud technology and industry-specific solutions to nonprofit organizations addressing the world's most pressing issues. This year, we provided \$3.2 billion in donated and discounted technology to 302,000 nonprofits serving over 1.2 billion people globally. And earlier this month, we announced that Microsoft will double the number of nonprofits we reach worldwide over the next five years.

Protect fundamental rights

We unequivocally support the fundamental rights of people, from defending democracy, to protecting human rights, to addressing racial injustice and inequity. And, as people's access to education, healthcare, jobs, and other critical services becomes increasingly dependent on technology, it's clear that access to broadband and accessible technology is also fundamental to building a more equitable future.

Since 2017, we've helped more than 50 million people in unserved rural communities globally gain access to affordable broadband coverage. Building on our work in eight US cities, we're now partnering with five US states with significant broadband adoption gaps to increase access, adoption, and equity. And—given the importance of current data to broadband planning—the new Microsoft Digital Equity Dashboard will help US policymakers and communities identify neighborhoods where funding and programmatic investment can achieve measurable impact.

This year, we continued our journey to address racial injustice and inequity by increasing representation within Microsoft, engaging our ecosystem, and strengthening our communities.

Across our ecosystem, we are more than 90% of the way toward our commitment to spend an incremental \$500 million with Black- and African American-owned suppliers. We've coordinated over 80 justice reform partnerships to help 145 communities expand access to data-driven insights that advance a more equitable system of justice and public safety. And we've expanded our Technology Education and Learning Support (TEALS) program to 290 high schools in cities with large Black and African American communities—to promote more equitable access to computer science education.

Our work to help preserve, protect, and advance democracy by promoting a healthy information ecosystem and safeguarding electoral processes is as salient as ever in today's geopolitical climate. Our AccountGuard nation-state threat notification service protects more than 4 million accounts of election officials, human rights organizations, journalists, and other organizations. Our efforts to preserve and protect journalism in the United States and Mexico have been extended globally through new partnerships with the Thomson Reuters Foundation, Report for the World, and others.

This year, we responded to six humanitarian emergencies in five countries through donations, technology, services, and employee giving. As of July 2022, we've committed \$257 million in financial and technology assistance to the global response to the war in Ukraine, including support for government, businesses, nonprofits, and humanitarian assistance for refugees. And, through our AI for Humanitarian Action initiative, we're helping organizations harness the power of AI to improve their disaster preparedness, response, and recovery.

Finally, we continued working toward our five-year commitment to bridge the disability divide for the more than 1 billion people around the world with disabilities, seeking to expand accessibility in technology, the workforce, and

workplace. As just one example of this work, use of our Office Accessibility Checker—our “spell check” for accessibility—has grown by 9x over the past year. And, along with partner companies, we launched the Neurodiversity Career Connector, a jobs marketplace for neurodivergent job seekers.

Create a sustainable future

We must ensure that economic growth does not come at the expense of our planet. Addressing climate change requires swift, collective action and technical innovation. We’re continuing our pursuit of our own ambitious commitments and helping others achieve their climate goals, aided by technology.

In March, we released our second annual sustainability report, sharing our progress, challenges, and learnings as we pursue our commitments to become carbon negative, water positive, and zero waste. Although we continued to make progress on several of our goals with an overall reduction in Scope 1 and Scope 2 emissions, our Scope 3 emissions increased, due in large part to significant global datacenter expansions and the growth in Xbox sales and usage. Despite these increases, we remain dedicated to achieving a net-zero future. We recognize that progress won’t always be linear, and the rate at which we can implement emissions reductions is dependent on many factors that can fluctuate over time.

On the path to becoming water positive, we invested in 21 water replenishment projects that are expected to generate over 1.3 million cubic meters of volumetric benefits in nine water basins around the world. Progress toward our zero waste commitment included diverting more than 15,200 metric tons of solid waste otherwise headed to landfills and incinerators, as well as launching new Circular Centers to increase reuse and reduce e-waste at our datacenters.

We contracted to protect over 17,000 acres of land (50% more than the land we use to operate), thus achieving our commitment to protect more land than we use by 2025.

And with Microsoft Cloud for Sustainability, we’re expanding our work to help customers meet their ambitious sustainability goals by enabling them to better collect, track, and analyze the metrics of their sustainability strategy.

Earn trust

To drive positive impact and growth with technology, people need to be able to trust the technologies they use and the companies behind them. We are committed to earning trust—both trust in business model alignment with our customers and partners, and trust in technology, spanning privacy, security, digital safety, the responsible use of AI, and transparency.

We’re dedicated to preserving our customers’ privacy and their ability to control their own data. We advocate for strong privacy laws that require companies, including ours, to be accountable and responsible in their collection and use of personal data. That’s why we supported the new Trans-Atlantic Data Privacy Framework and committed to meet or exceed all the requirements it outlines. And through the Microsoft privacy dashboard, millions of people each year can make meaningful choices about how their data is used.

Security and digital safety are foundational to trust in today’s complex threat landscape. We analyze 43 trillion security signals daily and use the insights to inform increased protections. This year, we blocked 34.7 billion identity threats and 37 billion email threats. Over the past four years, we’ve sent over 67,000 nation-state-related threat notifications to customers to help them protect themselves from digital threats.

This comprehensive capability has been critical during recent world events, including the war in Ukraine. Our efforts have involved both defending key infrastructure in the country—including assisting with the detection and disruption of cyberattacks and cyberinfluence operations and evacuating data to the cloud—as well as supporting people, communities, and organizations on the ground as part of our humanitarian and disaster response.

Our commitment to responsibly develop and use technologies like AI is core to who we are. We put our commitment into practice, not only within Microsoft but by empowering our customers and partners to do the same and by advocating for policy change. We released our Responsible AI Standard, which outlines 17 goals aligned to our six AI principles and includes tools and practices to support them. And we share our open-source tools, including the new Responsible AI Dashboard, to help developers building AI technologies identify and mitigate issues before deployment.

Finally, we provide clear reporting and information on how we run our business and how we work with customers and partners, delivering the transparency that is central to trust. Our annual Impact Summary shares more about our progress and learnings across these four commitments, and our Reports Hub provides detailed reports on our environmental data, our political activities, our workforce demographics, our human rights work, and more.

We should all be proud of this work—and I am. But it's easy to talk about what we're doing well. As we look to the next year and beyond, we'll continue to reflect on where the world needs us to do better.

OUR OPPORTUNITY

Now, let me turn to how we are positioned to capture the massive opportunities ahead. Over the past few years, I've written extensively about digital transformation, but now we need to go beyond that to deliver on what I call the "digital imperative."

Technology is a deflationary force in an inflationary economy. Every organization in every industry will need to infuse technology into every business process and function so they can do more with less. It's what I believe will make the difference between organizations that thrive and those that get left behind.

In the coming years, technology as a percentage of GDP will double from 5% to 10% and beyond, as technology moves from a back-office cost center to a defining feature of every product and service. But even more important will be technology's influence on the other 90% of the world's economy. From communications and commerce, to logistics, financial services, energy, healthcare, and entertainment, digital technology will power the entire global economy as every company becomes a software company in its own right.

Across our customer solution areas, we are delivering powerful platforms, tools, and services that expand our opportunity to help every organization in every industry deliver on the digital imperative—with a business model that is trusted and always aligned with their success.

Apps and infrastructure

We are building Azure as the world's computer, with more than 60 datacenter regions—more than any other provider—delivering faster access to cloud services while addressing critical data residency requirements. With Azure Arc, we're bringing Azure anywhere, meeting customers where they are and enabling them to run apps across on-premises, edge, or multicloud environments. And we're extending our infrastructure to the 5G network edge with Azure for Operators, introducing new solutions to help telecom operators deliver ultra-low-latency services closer to end users.

As the digital and physical worlds come together, we're also leading in the industrial metaverse. From smart factories, to smart buildings, to smart cities, we're helping organizations use Azure IoT, Azure Digital Twins, and Microsoft Mesh to digitize people, places, and things, in order to visualize, simulate, and analyze any business process.

Data and AI

From best-in-class databases and analytics to data governance, we have the most comprehensive data stack to help every organization turn its data into predictive and analytical power. With our new Microsoft Intelligent Data

Platform, we are helping customers focus on creating value instead of integrating a fragmented data estate. Cosmos DB is the go-to database powering the world's most demanding, mission-critical workloads, at any scale. With Azure Synapse, we're removing traditional barriers between enterprise data warehousing and big data analytics so anyone can collaborate, build, and manage analytics solutions. And we're creating an entirely new market category with Microsoft Purview, as we help organizations govern, protect, and manage their data estate across platforms and clouds.

When it comes to AI, we're seeing a paradigm shift as the world's large AI models become platforms themselves. And we are helping organizations apply the world's most advanced coding and language models to a variety of use cases, such as writing assistance, code generation, and reasoning over data with our new Azure OpenAI Service.

Digital and app innovation

We have the most popular developer tools for any cloud and any platform to help organizations modernize existing apps and build new ones. GitHub is the most complete developer platform to build, scale, and deliver secure software. This year, we introduced GitHub Copilot, a first-of-its-kind AI pair programmer, to help developers write better code faster. And organizations are increasingly turning to both Visual Studio and our Azure PaaS services to streamline development and create modern, more resilient cloud-native applications.

Low-code/no-code tools are rapidly becoming a priority for every organization's digital capability. With Power Platform, we are helping domain experts rapidly drive productivity gains when it's never been more important. We have nearly 25 million monthly active users. And we're innovating to make it even easier for teams of professional and citizen developers to automate workflows, create apps, build virtual agents, and analyze data.

Business applications

With our expanding portfolio of business applications, we are helping every business become a hyperconnected business—unifying data, process, and teams across the organization. New Dynamics 365 Connected Spaces helps organizations across diverse industries—from real estate and retail, to factories and construction—manage their physical operations. And with new integrations between Dynamics 365 and Teams, we are creating a new category of collaborative applications that helps businesses surface data and insights right in the flow of work.

Our industry clouds bring together capabilities across the Microsoft Cloud with industry-specific customizations to help organizations improve time to value, increase agility, and lower costs. We completed our acquisition of Nuance Communications this year, adding new cloud and enterprise AI capabilities for healthcare, as well as other industries. And as sustainability becomes an existential priority not just for our society but for every organization, our new Microsoft Cloud for Sustainability, which I mentioned earlier, is helping our customers record, report, and ultimately reduce their environmental impact.

Modern work

Hybrid work is now just work. Every organization is looking to reconnect and reengage the workforce at home, in the office, and everywhere in between. Microsoft Teams is the most used and most advanced platform for work, surpassing 270 million monthly active users this year. It's the only solution with meetings, calls, chat, collaboration, and business process automation in one place.

Teams Rooms is bringing Teams to a growing ecosystem of devices to help organizations rethink their approach to space and help employees participate fully in meetings from anywhere. And with Microsoft Viva, we're building an employee experience platform that brings together communications, knowledge, learning, resources, and insights in the flow of work to empower employees and strengthen their connection to their company's mission and culture.

Modern life

The PC has never been more relevant to work, life, and play. This year, we launched Windows 11, the biggest update to our operating system in a decade. It reimagines everything from the user experience to the store to help people and organizations be more productive, connected, and secure, and to build a more open ecosystem for developers and creators. There are now more than 1.4 billion monthly active devices running Windows 10 or Windows 11. We launched new Surface devices to support every person and work style. And we have nearly 60 million Microsoft 365 consumer subscriptions as we help people create, connect, and share wherever they go.

Security

Cybersecurity is the number one threat facing every business today. To keep our customers secure, we build security by design into every product we sell, and we deliver end-to-end solutions spanning security, compliance, identity, device management, and privacy across clouds and platforms. We are the only cloud provider with multicloud protection for the industry's top three cloud platforms. Our new Entra product family includes tools for permissions management, identity governance, and identity verification. And we now offer managed threat detection and response with Microsoft Security Experts.

LinkedIn

LinkedIn has become mission critical to connect creators with their communities, job seekers with jobs, learners with skills, and marketers with buyers. LinkedIn now has more than 850 million members, and our Sales, Talent, Marketing, and Premium Subscriptions lines of business have all surpassed \$1 billion in annual revenue over the past 12 months.

Search, advertising, and news

When it comes to advertising, we are creating a new monetization engine for the web—an alternative that offers marketers and publishers more long-term viable ad solutions—while upholding consumer privacy and strong data governance. We're focused on increasing our share and engagement across our browser Microsoft Edge, our search engine Microsoft Bing, and our personalized content feed Microsoft Start.

And with our acquisition of Xandr, we now power one of the largest marketplaces for premium advertising. Netflix chose us this summer as its exclusive technology and sales partner for its first ad-supported subscription offering, a validation of the differentiated value we provide to publishers looking for a flexible partner to build and innovate with them. I couldn't be more excited about our expansive opportunity ahead in this space.

Gaming

The big bets we have made across content, community, and cloud over the past few years continue to pay off. We've sold more Xbox Series S and Series X consoles life-to-date than any previous generation of Xbox, and with Xbox Cloud Gaming, we're bringing games to entirely new endpoints. In the past year, we've made many of our most popular titles accessible on phones, tablets, TVs, and low-spec PCs for the first time. Our Xbox Game Pass subscription service now includes access to hundreds of games. And with our planned acquisition of Activision Blizzard, we aim to give players more choice to play great games wherever, whenever, and however they want. Choice is equally important to developers, who we want to support with a diversity of distribution and business models for their games. We believe the acquisition will unlock opportunities for innovation and enable the industry to grow.

OUR CULTURE

Our culture is the foundation on which our mission and strategy stand, and cultivating it is our greatest priority. We're always working to close the gap between our espoused culture and the lived experience of the more than

220,000 people who work at Microsoft. Essential to this is our commitment to continually exercise our growth mindset and confront our fixed mindset with humility, curiosity, compassion, and the recognition that, while none of us will ever be perfect, we can always be better than we are today.

This growth mindset served us well through the historic changes of the past few years. It sustains our everyday practice of customer obsession. It helps us care for our colleagues and collaborate more effectively across the company. And it deeply informs our longstanding commitment to diversity and inclusion.

If we want to serve the world, we need to represent the world. Each year we strive to increase representation, and 2022 was no exception. We saw the strongest progress in years across several demographic groups, as you can see in our latest Diversity & Inclusion Report. We are one of the most transparent companies of our size when it comes to the data we share, and we continually challenge ourselves to increase visibility into where we're succeeding and where we need to address gaps. We've added new data, such as military status, gender representation by geography, employee exits, and additional pay data, to reflect our workforce more broadly. As we make meaningful progress, we continue our commitment to meet the increasing expectations for driving innovation, welcoming diverse perspectives, and leading global change.

Giving is also core to our culture at Microsoft. In 2022, our employees gave \$255 million (with company match) to over 32,000 nonprofits. And more than 29,000 employees volunteered over 720,000 hours to causes they care about.

I'm constantly in awe of how our employees bring their passion to work each day—for each other, for our customers, and for their communities.

I want to close by thanking you for your continued investment in Microsoft. Our growth and impact this past year would not have been possible without your commitment to the company and belief in its mission.

The opportunity to apply technology to make a real difference for every customer, community, and country has never been greater. And I truly believe if we continue to live our mission, embrace our responsibility, and grasp that opportunity, there is no limit to what we can achieve for the world in the year ahead and beyond.



Satya Nadella
Chairman and Chief Executive Officer
October 24, 2022

FINANCIAL REVIEW

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, 2022, there were 86,465 registered holders of record of our common stock.

SHARE REPURCHASES AND DIVIDENDS

Share Repurchases

On September 20, 2016, our Board of Directors approved a share repurchase program authorizing up to \$40.0 billion in share repurchases. This share repurchase program commenced in December 2016 and was completed in February 2020.

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, 2022, \$40.7 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,		2022		2021		2020
First Quarter	21	\$ 6,200	25	\$ 5,270	29	\$ 4,000
Second Quarter	20	6,233	27	5,750	32	4,600
Third Quarter	26	7,800	25	5,750	37	6,000
Fourth Quarter	28	7,800	24	6,200	28	5,088
Total	95	\$ 28,033	101	\$22,970	126	\$ 19,688

All repurchases were made using cash resources. Shares repurchased during the fourth and third quarters of fiscal year 2022 were under the share repurchase program approved on September 14, 2021. Shares repurchased during the second quarter of fiscal year 2022 were under the share repurchase programs approved on both September 14, 2021 and September 18, 2019. Shares repurchased during the first quarter of fiscal year 2022, fiscal year 2021, and the fourth quarter of fiscal year 2020 were under the share repurchase program approved on September 18, 2019. Shares repurchased during the third quarter of fiscal year 2020 were under the share repurchase programs approved on both September 20, 2016 and September 18, 2019. All other shares repurchased were under the share repurchase program approved on September 20, 2016. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards of \$4.7 billion, \$4.4 billion, and \$3.3 billion for fiscal years 2022, 2021, and 2020, respectively.