Annual Report 2022

Microsoft

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.

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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

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.

Dividends

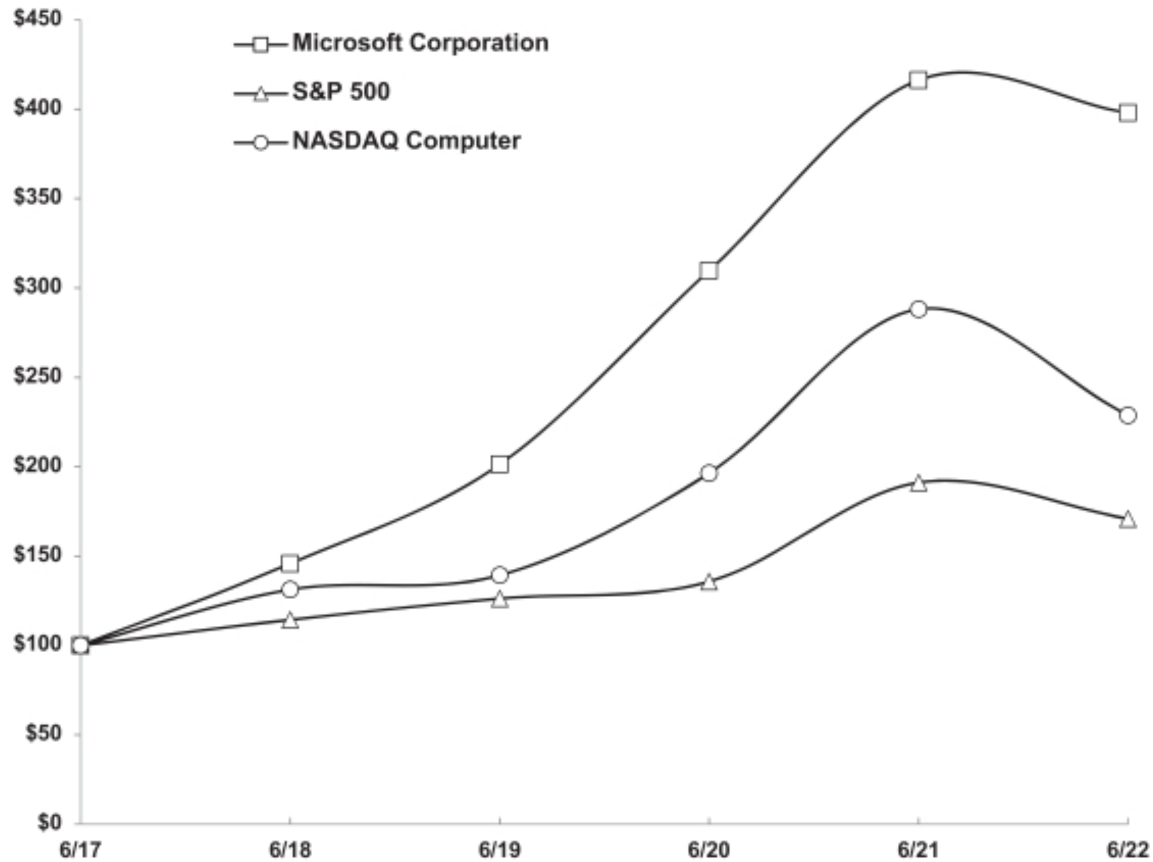
Our Board of Directors declared the following dividends:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
Fiscal Year 2022				**(In millions)**
September 14, 2021	**November 18, 2021**	**December 9, 2021**	**$ 0.62**	**$ 4,652**
December 7, 2021	**February 17, 2022**	**March 10, 2022**	**0.62**	**4,645**
March 14, 2022	**May 19, 2022**	**June 9, 2022**	**0.62**	**4,632**
June 14, 2022	**August 18, 2022**	**September 8, 2022**	**0.62**	**4,627**
Total			**$ 2.48**	**$ 18,556**
Fiscal Year 2021				
September 15, 2020	November 19, 2020	December 10, 2020	$ 0.56	$ 4,230
December 2, 2020	February 18, 2021	March 11, 2021	0.56	4,221
March 16, 2021	May 20, 2021	June 10, 2021	0.56	4,214
June 16, 2021	August 19, 2021	September 9, 2021	0.56	4,206
Total			$ 2.24	$ 16,871

The dividend declared on June 14, 2022 was included in other current liabilities as of June 30, 2022.

STOCK PERFORMANCE

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Microsoft Corporation, the S&P 500 Index
and the NASDAQ Computer Index



	6/17	6/18	6/19	6/20	6/21	6/22
Microsoft Corporation	100.00	145.84	201.36	309.69	416.25	**397.90**
S&P 500	100.00	114.37	126.29	135.77	191.15	**170.86**
NASDAQ Computer	100.00	131.27	139.29	196.40	288.13	**228.71**

* $100 invested on 6/30/17 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” in our fiscal year 2022 Form 10-K and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our fiscal year 2022 Form 10-K. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures about Market Risk" in our fiscal year 2022 Form 10-K. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

BUSINESS

GENERAL

Embracing Our Future

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

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

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

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

What We Offer

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

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

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

The Ambitions That Drive Us

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

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

Reinvent Productivity and Business Processes

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

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

Build the Intelligent Cloud and Intelligent Edge Platform

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

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

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

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

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

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

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

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

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

Create More Personal Computing

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

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

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

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

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

Our Future Opportunity

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

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

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

Corporate Social Responsibility

Commitment to Sustainability

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

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

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

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

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

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

Addressing Racial Injustice and Inequity

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

- Strengthening our communities: using data, technology, and partnerships to help improve the lives of Black and African American people in the United States, including our employees and their communities.
- Evolving our ecosystem: using our balance sheet and relationships with suppliers and partners to foster societal change and create new opportunities.

- Increasing representation and strengthening inclusion: build on our momentum, adding a $150 million investment to strengthen inclusion and double the number of Black, African American, Hispanic, and Latinx leaders in the United States by 2025.

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

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

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

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

Investing in Digital Skills

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

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

HUMAN CAPITAL RESOURCES

Overview

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

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

Our Culture

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

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

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

Diversity and Inclusion

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

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

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

Total Rewards

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

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

Pay Equity

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

Wellness and Safety

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

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

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

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

Learning and Development

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

- Personalized, integrated, and relevant views of all learning opportunities on both our internal learning portal Learning (Viva Learning + LinkedIn Learning) and our external learning portal MS Learn are available to all employees worldwide.

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

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

New Ways of Working

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

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 in our fiscal year 2022 Form 10-K.

Our reportable segments are described below.

Productivity and Business Processes

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

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

Office Commercial

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

Office Consumer

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

LinkedIn

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

Dynamics

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

Competition

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

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

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

Intelligent Cloud

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

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

Server Products and Cloud Services

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

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

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

Enterprise Services

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

Competition

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

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

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

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

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

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

More Personal Computing

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

- Windows, including Windows OEM licensing (“Windows OEM”) and other non-volume licensing of the Windows operating system; Windows Commercial, comprising volume licensing of the Windows operating system, Windows cloud services, and other Windows commercial offerings; patent licensing; and Windows Internet of Things.
- Devices, including Surface and PC accessories.
- Gaming, including Xbox hardware and Xbox content and services, comprising first- and third-party content (including games and in-game content), Xbox Game Pass and other subscriptions, Xbox Cloud Gaming, third-party disc royalties, advertising, and other cloud services.
- Search and news advertising.

Windows

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

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

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

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

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

Devices

We design and sell devices, including Surface 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. Our exclusive game content is created through Xbox Game Studios, a collection of first-party studios creating iconic and differentiated gaming experiences. We continue to invest in new gaming studios and content to expand our IP 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 100 first- and third-party console and PC titles.

The gamer remains at the heart of the Xbox ecosystem. We continue to open new opportunities for gamers to engage both on- and off-console with both the launch of Xbox Cloud Gaming, our game streaming service, and continued investment in gaming hardware. Xbox Cloud Gaming utilizes Microsoft's Azure cloud technology to allow direct and on-demand streaming of games to PCs, consoles, and mobile devices, enabling gamers to take their favorite games with them and play on the device most convenient to them.

Xbox enables people to connect and share online gaming experiences that are accessible on Xbox consoles, Windows-enabled devices, and other devices. Xbox is designed to benefit users by providing access to a network of certified applications and services and to benefit our developer and partner ecosystems by providing access to a large customer base. Xbox revenue is mainly affected by subscriptions and sales of first- and third-party content, as well as advertising. Growth of our Gaming business is determined by the overall active user base through Xbox enabled content, availability of games, providing exclusive game content that gamers seek, the computational power and reliability of the devices used to access our content and services, and the ability to create new experiences through first-party content creators.

Search and News Advertising

Our Search and news advertising business is designed to deliver relevant search, native, and display advertising to a global audience. We have several partnerships with other companies, including Yahoo, through which we provide and monetize search queries. Growth depends on our ability to attract new users, understand intent, and match intent with relevant content and advertiser offerings.

On June 6, 2022, we acquired Xandr, Inc., a technology platform with tools to accelerate the delivery of our digital advertising solutions.

Competition

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

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

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

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

OPERATIONS

We have operations centers that support operations in their regions, including customer contract and order processing, credit and collections, information processing, and vendor management and logistics. The regional center in Ireland supports the European, Middle Eastern, and African region; the center in Singapore supports the Japan, India, Greater China, and Asia-Pacific region; and the centers in Fargo, North Dakota, Fort Lauderdale, Florida, Puerto Rico, Redmond, Washington, and Reno, Nevada support Latin America and North America. In addition to the operations centers, we also operate datacenters throughout the Americas, Europe, Australia, and Asia, as well as in the Middle East and Africa.

To serve the needs of customers around the world and to improve the quality and usability of products in international markets, we localize many of our products to reflect local languages and conventions. Localizing a product may require modifying the user interface, altering dialog boxes, and translating text.

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. For these components, we have limited near-term flexibility to use other manufacturers if a current vendor becomes unavailable or is unable to meet our requirements. Extended disruptions at these suppliers and/or manufacturers could lead to a similar disruption in 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, and their systems more productive and efficient through development of cloud infrastructure, server, database, CRM, ERP, software development tools and services (including GitHub), AI cognitive services, and other business process applications and services for enterprises.
- *Experiences and Devices*, focuses on instilling a unifying product ethos across our end-user experiences and devices, including Office, Windows, Teams, consumer web experiences (including search and news advertising), and the Surface line of devices.
- *Security, Compliance, Identity, and Management*, focuses on cloud platform and application security, identity and network access, enterprise mobility, information protection, and managed services.
- *Technology and Research*, focuses on our AI innovations and other forward-looking research and development efforts spanning infrastructure, services, and applications.
- *LinkedIn*, focuses on our services that transform the way customers 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 69,000 U.S. and international patents issued and over 19,000 pending worldwide. While we employ much of our internally-developed intellectual property exclusively in our products and services, we also engage in outbound licensing of specific patented technologies that are incorporated into licensees' products. From time to time, we enter into broader cross-license agreements with other technology companies covering entire groups of patents. We may also purchase or license technology that we incorporate into our products and services. At times, we make select intellectual property broadly available at no or low cost to achieve a strategic objective, such as promoting industry standards, advancing interoperability, supporting societal and/or environmental efforts, or attracting and enabling our external development community. Our increasing engagement with open source software will also cause us to license our intellectual property rights broadly in certain situations.

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

Investing in the Future

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to initiate and embrace disruptive technology trends, to enter new geographic and product markets, and to drive broad adoption of our products and services. We invest in a range of emerging technology trends and breakthroughs that we believe offer significant opportunities to deliver value to our customers and growth for the Company. Based on our assessment of key technology trends, we maintain our long-term commitment to research and development across a wide spectrum of technologies, tools, and platforms spanning digital work and life experiences, cloud computing, AI, devices, and operating systems.

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

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

In addition to our main research and development operations, we also operate Microsoft Research. Microsoft Research is one of the world's largest corporate research organizations and works in close collaboration with top universities around the world to advance the state-of-the-art in computer science and a broad range of other disciplines, providing us a unique perspective on future trends and contributing 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 force performs a variety of functions, including working directly with commercial enterprises and public-sector organizations worldwide to identify and meet their technology and digital transformation requirements; managing OEM relationships; and supporting system integrators, independent software vendors, and other partners who engage directly with our customers to perform sales, consulting, and fulfillment functions for our products and services.

OEMs

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

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

Direct

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

We also sell commercial and consumer products and services directly to customers, such as cloud services, search, and gaming, through our digital marketplaces and online stores. In fiscal year 2021, we closed our Microsoft Store physical locations and opened our Microsoft Experience Centers. Microsoft Experience Centers are designed to facilitate deeper engagement with our partners and customers across industries.

Distributors and Resellers

Organizations also license our products and services indirectly, primarily through licensing solution partners (“LSP”), distributors, value-added resellers (“VAR”), and retailers. Although each type of reselling partner may reach organizations of all sizes, LSPs are primarily engaged with large organizations, distributors resell primarily to VARs, and VARs typically reach small and medium organizations. ESAs are also typically authorized as LSPs and operate as resellers for our other volume licensing programs. Microsoft Cloud Solution Provider is our main partner program for reselling cloud services.

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

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

LICENSING OPTIONS

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

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

Volume Licensing Programs

Enterprise Agreement

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

Microsoft Customer Agreement

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

Microsoft Online Subscription Agreement

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

Microsoft Products and Services Agreement

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

Open Value

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

Select Plus

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

Partner Programs

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

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

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

CUSTOMERS

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

AVAILABLE INFORMATION

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

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

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

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Microsoft Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Financial Statements in our fiscal year 2022 Form 10-K. This section generally discusses the results of our operations for the year ended June 30, 2022 compared to the year ended June 30, 2021. For a discussion of the year ended June 30, 2021 compared to the year ended June 30, 2020, please refer to in our fiscal year 2022 Form 10-K, "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, 2021.

OVERVIEW

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

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

Highlights from fiscal year 2022 compared with fiscal year 2021 included:

- Microsoft Cloud (formerly commercial cloud) revenue increased 32% to $91.2 billion.
- Office Commercial products and cloud services revenue increased 13% driven by Office 365 Commercial growth of 18%.
- Office Consumer products and cloud services revenue increased 11% and Microsoft 365 Consumer subscribers grew to 59.7 million.
- LinkedIn revenue increased 34%.
- Dynamics products and cloud services revenue increased 25% driven by Dynamics 365 growth of 39%.
- Server products and cloud services revenue increased 28% driven by Azure and other cloud services growth of 45%.
- Windows original equipment manufacturer licensing ("Windows OEM") revenue increased 11%.
- Windows Commercial products and cloud services revenue increased 11%.
- Xbox content and services revenue increased 3%.
- Search and news advertising revenue excluding traffic acquisition costs increased 27%.
- Surface revenue increased 3%.

On March 4, 2022, we completed our acquisition of Nuance Communications, Inc. ("Nuance") for a total purchase price of $18.8 billion, consisting primarily of cash. Nuance is a cloud and artificial intelligence ("AI") software provider with healthcare and enterprise AI experience, and the acquisition will build on our industry-specific cloud offerings. The financial results of Nuance have been included in our consolidated financial statements since the date of the acquisition. Nuance is reported as part of our Intelligent Cloud segment. Refer to Note 8 – Business Combinations of the Notes to Financial Statements in our fiscal year 2022 Form 10-K 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, and influence how users access services in the cloud, and in some cases, the user's choice of which suite of cloud-based services to use. We must continue to evolve and adapt over an extended time in pace with this changing environment. The investments we are making in infrastructure and devices will continue to increase our operating costs and may decrease our operating margins.

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. Aggregate demand for our software, services, and devices is correlated to global macroeconomic and geopolitical factors, which remain dynamic.

Our devices are primarily manufactured by third-party contract manufacturers, some of which contain certain components for which there are very few qualified suppliers. For these components, we have limited near-term flexibility to use other manufacturers if a current vendor becomes unavailable or is unable to meet our requirements. Extended disruptions at these suppliers and/or manufacturers could lead to a similar disruption in our ability to manufacture devices on time to meet consumer demand.

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 or expenses from our international operations in fiscal year 2022.

Refer to Risk Factors in our fiscal year 2022 Form 10-K for a discussion of these factors and other risks.

Seasonality

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

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 in our fiscal year 2022 Form 10-K.

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 in our fiscal year 2022 Form 10-K. 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 2022, we made updates to the presentation and method of calculation for certain metrics, most notably changes to incorporate all current and anticipated revenue streams within our Office Consumer and Server products and cloud services metrics and changes to align with how we manage our Windows OEM and Search and news advertising businesses. None of these changes had a material impact on previously reported amounts in our MD&A.

In the third quarter of fiscal year 2022, we completed our acquisition of Nuance. Nuance is included in all commercial metrics and our Server products and cloud services revenue growth metric. Azure and other cloud services revenue includes Nuance cloud services, and Server products revenue includes Nuance on-premises offerings.

Commercial

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

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

Productivity and Business Processes and Intelligent Cloud

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

Office Commercial products and cloud services revenue growth	Revenue from Office Commercial products and cloud services (Office 365 subscriptions, the Office 365 portion of Microsoft 365 Commercial subscriptions, and Office licensed on-premises), comprising Office, Exchange, SharePoint, Microsoft Teams, Office 365 Security and Compliance, and Microsoft Viva
Office Consumer products and cloud services revenue growth	Revenue from Office Consumer products and cloud services, including Microsoft 365 Consumer subscriptions, Office licensed on-premises, and other Office services
Office 365 Commercial seat growth	The number of Office 365 Commercial seats at end of period where seats are paid users covered by an Office 365 Commercial subscription
Microsoft 365 Consumer subscribers	The number of Microsoft 365 Consumer subscribers at end of period

Dynamics products and cloud services revenue growth	Revenue from Dynamics products and cloud services, including Dynamics 365, comprising a set of intelligent, cloud-based applications across ERP, CRM, Customer Insights, 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
Surface revenue growth	Revenue from Surface devices and accessories
Xbox content and services revenue growth	Revenue from Xbox content and services, comprising first- and third-party content (including games and in-game content), Xbox Game Pass and other subscriptions, Xbox Cloud Gaming, third-party disc royalties, advertising, and other cloud services
Search and news advertising revenue, excluding 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)	**2022**	**2021**	**Percentage Change**
Revenue	**$ 198,270**	$ 168,088	18%
Gross margin	**135,620**	115,856	17%
Operating income	**83,383**	69,916	19%
Net income	**72,738**	61,271	19%
Diluted earnings per share	**9.65**	8.05	20%
Adjusted net income (non-GAAP)	**69,447**	60,651	15%
Adjusted diluted earnings per share (non-GAAP)	**9.21**	7.97	16%

Adjusted net income and adjusted diluted earnings per share (“EPS”) are non-GAAP financial measures which exclude the net income tax benefit related to transfer of intangible properties in the first quarter of fiscal year 2022 and the net income tax benefit related to an India Supreme Court decision on withholding taxes in the third quarter of fiscal year 2021. 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. See Note 12 – Income Taxes of the Notes to Financial Statements in our fiscal year 2022 Form 10-K for further discussion.

Fiscal Year 2022 Compared with Fiscal Year 2021

Revenue increased $30.2 billion or 18% driven by growth across each of our segments. Intelligent Cloud revenue increased driven by Azure and other cloud services. Productivity and Business Processes revenue increased driven by Office 365 Commercial and LinkedIn. More Personal Computing revenue increased driven by Search and news advertising and Windows.

Cost of revenue increased $10.4 billion or 20% driven by growth in Microsoft Cloud.

Gross margin increased $19.8 billion or 17% driven by growth across each of our segments.

- Gross margin percentage decreased slightly. Excluding the impact of the fiscal year 2021 change in accounting estimate for the useful lives of our server and network equipment, gross margin percentage increased 1 point driven by improvement in Productivity and Business Processes.
- Microsoft Cloud gross margin percentage decreased slightly to 70%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage increased 3 points driven by improvement across our cloud services, offset in part by sales mix shift to Azure and other cloud services.

Operating expenses increased $6.3 billion or 14% driven by investments in cloud engineering, LinkedIn, Gaming, and commercial sales.

Key changes in operating expenses were:

- Research and development expenses increased $3.8 billion or 18% driven by investments in cloud engineering, Gaming, and LinkedIn.
- Sales and marketing expenses increased $1.7 billion or 8% driven by investments in commercial sales and LinkedIn. Sales and marketing included a favorable foreign currency impact of 2%.
- General and administrative expenses increased $793 million or 16% driven by investments in corporate functions.

Operating income increased $13.5 billion or 19% driven by growth across each of our segments.

Current year net income and diluted EPS were positively impacted by the net tax benefit related to the transfer of intangible properties, which resulted in an increase to net income and diluted EPS of $3.3 billion and $0.44, respectively. Prior year net income and diluted EPS were positively impacted by the net tax benefit related to the India Supreme Court decision on withholding taxes, which resulted in an increase to net income and diluted EPS of $620 million and $0.08, respectively.

Gross margin and operating income both included an unfavorable foreign currency impact of 2%.

SEGMENT RESULTS OF OPERATIONS

(In millions, except percentages)	**2022**	**2021**	**Percentage Change**
Revenue			
Productivity and Business Processes	**$ 63,364**	$ 53,915	18%
Intelligent Cloud	**75,251**	60,080	25%
More Personal Computing	**59,655**	54,093	10%
Total	**$ 198,270**	$ 168,088	18%
Operating Income			
Productivity and Business Processes	**$ 29,687**	$ 24,351	22%
Intelligent Cloud	**32,721**	26,126	25%
More Personal Computing	**20,975**	19,439	8%
Total	**$ 83,383**	$ 69,916	19%

Reportable Segments

Fiscal Year 2022 Compared with Fiscal Year 2021

Productivity and Business Processes

Revenue increased $9.4 billion or 18%.

- Office Commercial products and cloud services revenue increased $4.4 billion or 13%. Office 365 Commercial revenue grew 18% driven by seat growth of 14%, with continued momentum in small and medium business and frontline worker offerings, as well as growth in revenue per user. Office Commercial products revenue declined 22% driven by continued customer shift to cloud offerings.
- Office Consumer products and cloud services revenue increased $641 million or 11% driven by Microsoft 365 Consumer subscription revenue. Microsoft 365 Consumer subscribers grew 15% to 59.7 million.
- LinkedIn revenue increased $3.5 billion or 34% driven by a strong job market in our Talent Solutions business and advertising demand in our Marketing Solutions business.
- Dynamics products and cloud services revenue increased 25% driven by Dynamics 365 growth of 39%.

Operating income increased $5.3 billion or 22%.

- Gross margin increased $7.3 billion or 17% driven by growth in Office 365 Commercial and LinkedIn. Gross margin percentage was relatively unchanged. Excluding the impact of the change in accounting estimate, gross margin percentage increased 2 points driven by improvement across all cloud services.
- Operating expenses increased $2.0 billion or 11% driven by investments in LinkedIn and cloud engineering.

Gross margin and operating income both included an unfavorable foreign currency impact of 2%.

Intelligent Cloud

Revenue increased $15.2 billion or 25%.

- Server products and cloud services revenue increased $14.7 billion or 28% driven by Azure and other cloud services. Azure and other cloud services revenue grew 45% driven by growth in our consumption-based services. Server products revenue increased 5% driven by hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments.
- Enterprise Services revenue increased $464 million or 7% driven by growth in Enterprise Support Services.

Operating income increased $6.6 billion or 25%.

- Gross margin increased $9.4 billion or 22% driven by growth in Azure and other cloud services. Gross margin percentage decreased. Excluding the impact of the change in accounting estimate, gross margin percentage was relatively unchanged driven by improvement in Azure and other cloud services, offset in part by sales mix shift to Azure and other cloud services.
- Operating expenses increased $2.8 billion or 16% driven by investments in Azure and other cloud services.

Revenue and operating income included an unfavorable foreign currency impact of 2% and 3%, respectively.

More Personal Computing

Revenue increased $5.6 billion or 10%.

- Windows revenue increased $2.3 billion or 10% driven by growth in Windows OEM and Windows Commercial. Windows OEM revenue increased 11% driven by continued strength in the commercial PC market, which has higher revenue per license. Windows Commercial products and cloud services revenue increased 11% driven by demand for Microsoft 365.

- Search and news advertising revenue increased $2.3 billion or 25%. Search and news advertising revenue excluding traffic acquisition costs increased 27% driven by higher revenue per search and search volume.
- Gaming revenue increased $860 million or 6% on a strong prior year comparable that benefited from Xbox Series X|S launches and stay-at-home scenarios, driven by growth in Xbox hardware and Xbox content and services. Xbox hardware revenue increased 16% due to continued demand for Xbox Series X|S. Xbox content and services revenue increased 3% driven by growth in Xbox Game Pass subscriptions and first-party content, offset in part by a decline in third-party content.
- Surface revenue increased $226 million or 3%.

Operating income increased $1.5 billion or 8%.

- Gross margin increased $3.1 billion or 10% driven by growth in Windows and Search and news advertising. Gross margin percentage was relatively unchanged.
- Operating expenses increased $1.5 billion or 14% driven by investments in Gaming, Search and news advertising, and Windows marketing.

OPERATING EXPENSES

Research and Development

(In millions, except percentages)	2022	2021	Percentage Change
Research and development	**$ 24,512**	$ 20,716	18%
As a percent of revenue	**12%**	12%	0ppt

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, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content.

Research and development expenses increased $3.8 billion or 18% driven by investments in cloud engineering, Gaming, and LinkedIn.

Sales and Marketing

(In millions, except percentages)	2022	2021	Percentage Change
Sales and marketing	**$ 21,825**	$ 20,117	8%
As a percent of revenue	**11%**	12%	(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.

Sales and marketing expenses increased $1.7 billion or 8% driven by investments in commercial sales and LinkedIn. Sales and marketing included a favorable foreign currency impact of 2%.

General and Administrative

(In millions, except percentages)	2022	2021	Percentage Change
General and administrative	**$ 5,900**	$ 5,107	16%
As a percent of revenue	**3%**	3%	0ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, 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.

General and administrative expenses increased $793 million or 16% driven by investments in corporate functions.

OTHER INCOME (EXPENSE), NET

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

(In millions)

Year Ended June 30,	**2022**	**2021**
Interest and dividends income	**$ 2,094**	$ 2,131
Interest expense	**(2,063)**	(2,346)
Net recognized gains on investments	**461**	1,232
Net gains (losses) on derivatives	**(52)**	17
Net gains (losses) on foreign currency remeasurements	**(75)**	54
Other, net	**(32)**	98
Total	**$ 333**	$ 1,186

We use derivative instruments to manage risks related to foreign currencies, equity prices, interest rates, and credit; enhance investment returns; and 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.

Interest and dividends income decreased due to lower portfolio balances. Interest expense decreased due to a decrease in outstanding long-term debt due to debt maturities. Net recognized gains on investments decreased primarily due to lower gains on equity securities.

INCOME TAXES

Effective Tax Rate

Our effective tax rate for fiscal years 2022 and 2021 was 13% and 14%, respectively. The decrease in our effective tax rate was primarily due to a $3.3 billion net income tax benefit in the first quarter of fiscal year 2022 related to the transfer of intangible properties, offset in part by changes in the mix of our income before income taxes between the U.S. and foreign countries, as well as tax benefits in the prior year from the India Supreme Court decision on withholding taxes in the case of Engineering Analysis Centre of Excellent Private Limited vs The Commissioner of Income Tax, an agreement between the U.S. and India tax authorities related to transfer pricing, and final Tax Cuts and Jobs Act ("TCJA") regulations.

In the first quarter of fiscal year 2022, we transferred certain intangible properties from our Puerto Rico subsidiary to the U.S. The transfer of intangible properties resulted in a $3.3 billion net income tax benefit in the first quarter of fiscal year 2022, as the value of future U.S. tax deductions exceeds the current tax liability from the U.S. global intangible low-taxed income tax.

We have historically paid India withholding taxes on software sales through distributor withholding and tax audit assessments in India. In March 2021, the India Supreme Court ruled favorably for companies in 86 separate appeals, some dating back to 2012, holding that software sales are not subject to India withholding taxes. Although we were not a party to the appeals, our software sales in India were determined to be not subject to withholding taxes. Therefore, we recorded a net income tax benefit of $620 million in the third quarter of fiscal year 2021 to reflect the results of the India Supreme Court decision impacting fiscal year 1996 through fiscal year 2016.

Our effective tax rate was lower than the U.S. federal statutory rate, primarily due to the net income tax benefit related to the transfer of intangible properties, 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, and tax benefits relating to stock-based compensation.

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 2022, our U.S. income before income taxes was $47.8 billion and our foreign income before income taxes was $35.9 billion. In fiscal year 2021, our U.S. income before income taxes was $35.0 billion and our foreign income before income taxes was $36.1 billion.

Uncertain Tax Positions

We settled a portion of the Internal Revenue Service ("IRS") audit for tax years 2004 to 2006 in fiscal year 2011. In February 2012, the IRS withdrew its 2011 Revenue Agents Report related to unresolved issues for tax years 2004 to 2006 and reopened the audit phase of the examination. We also settled a portion of the IRS audit for tax years 2007 to 2009 in fiscal year 2016, and a portion of the IRS audit for tax years 2010 to 2013 in fiscal year 2018. In the second quarter of fiscal year 2021, we settled an additional portion of the IRS audits for tax years 2004 to 2013 and made a payment of $1.7 billion, including tax and interest. We remain under audit for tax years 2004 to 2017.

As of June 30, 2022, the primary unresolved issues for the IRS audits relate to transfer pricing, which could have a material impact in our consolidated financial statements when the matters are resolved. We believe our allowances for income tax contingencies are adequate. We have not received a proposed assessment for the unresolved key transfer pricing issues and 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 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 2021, 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 net income and adjusted diluted EPS are non-GAAP financial measures which exclude the net tax benefit related to the transfer of intangible properties in the first quarter of fiscal year 2022 and the net income tax benefit related to an India Supreme Court decision on withholding taxes in the third quarter of fiscal year 2021. 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)	2022	2021	Percentage Change
Net income	**$ 72,738**	$ 61,271	19%
Net income tax benefit related to transfer of intangible properties	**(3,291)**	0	*
Net income tax benefit related to India Supreme Court decision on withholding taxes	**0**	(620)	*
Adjusted net income (non-GAAP)	**$ 69,447**	$ 60,651	15%
Diluted earnings per share	**$ 9.65**	$ 8.05	20%
Net income tax benefit related to transfer of intangible properties	**(0.44)**	0	*
Net income tax benefit related to India Supreme Court decision on withholding taxes	**0**	(0.08)	*
Adjusted diluted earnings per share (non-GAAP)	**$ 9.21**	$ 7.97	16%

* *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 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 $104.8 billion and $130.3 billion as of June 30, 2022 and 2021, respectively. Equity investments were $6.9 billion and $6.0 billion as of June 30, 2022 and 2021, 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 $12.3 billion to $89.0 billion for fiscal year 2022, mainly due to an increase in cash received from customers, offset in part by an increase in cash paid to suppliers and employees. Cash used in financing increased $10.4 billion to $58.9 billion for fiscal year 2022, mainly due to a $5.3 billion increase in common stock repurchases and a $5.3 billion increase in repayments of debt. Cash used in investing increased $2.7 billion to $30.3 billion for fiscal year 2022, mainly due to a $13.1 billion increase in cash used for acquisitions of companies, net of cash acquired, and purchases of intangible and other assets, and a $3.3 billion increase in additions to property and equipment, offset in part by a $15.6 billion increase in cash from net investment purchases, sales, and maturities.

Debt Proceeds

We issue debt to take advantage of favorable pricing and liquidity in the debt markets, reflecting our credit rating and the low interest rate environment. 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. In March 2021 and June 2020, we exchanged a portion of our existing debt at a premium for cash and new debt with longer maturities to take advantage of favorable financing rates in the debt markets, reflecting our credit rating and the low interest rate environment. Refer to Note 11 – Debt of the Notes to Financial Statements in our fiscal year 2022 Form 10-K 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 in our fiscal year 2022 Form 10-K for further discussion.

The following table outlines the expected future recognition of unearned revenue as of June 30, 2022:

(In millions)	
Three Months Ending	
September 30, 2022	**$ 17,691**
December 31, 2022	**13,923**
March 31, 2023	**9,491**
June 30, 2023	**4,433**
Thereafter	**2,870**
Total	**$ 48,408**

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.

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, 2022:

(In millions)	2023	Thereafter	Total
Long-term debt: (a)			
Principal payments	**$ 2,750**	**$ 52,761**	**$ 55,511**
Interest payments	**1,468**	**21,139**	**22,607**
Construction commitments (b)	**7,942**	**576**	**8,518**
Operating and finance leases, including imputed interest (c)	**4,609**	**44,045**	**48,654**
Purchase commitments (d)	**42,669**	**2,985**	**45,654**
Total	**$ 59,438**	**$ 121,506**	**$ 180,944**

(a) *Refer to Note 11 – Debt of the Notes to Financial Statements in our fiscal year 2022 Form 10-K.*
(b) *Refer to Note 7 – Property and Equipment of the Notes to Financial Statements in our fiscal year 2022 Form 10-K.*
(c) *Refer to Note 14 – Leases of the Notes to Financial Statements in our fiscal year 2022 Form 10-K.*
(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. We have paid transition tax of $6.2 billion, which included $1.5 billion for fiscal year 2022. The remaining transition tax of $12.0 billion is payable over the next four years, with $1.3 billion payable within 12 months.

Provisions enacted in the TCJA related to the capitalization for tax purposes of research and experimental expenditures became effective on July 1, 2022. These provisions require us to capitalize research and experimental expenditures and amortize them on the U.S. tax return over five or fifteen years, depending on where research is conducted. The final foreign tax credit regulations, also effective on July 1, 2022, introduced significant changes to foreign tax credit calculations in the U.S. tax return. While these provisions are not expected to have a material impact on our fiscal year 2023 effective tax rate on a net basis, our cash paid for taxes would increase unless these provisions are postponed or modified through legislative processes.

Share Repurchases

During fiscal years 2022 and 2021, we repurchased 95 million shares and 101 million shares of our common stock for $28.0 billion and $23.0 billion, respectively, through our share repurchase programs. All repurchases were made using cash resources. As of June 30, 2022, $40.7 billion remained of our $60 billion share repurchase program. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements in our fiscal year 2022 Form 10-K for further discussion.

Dividends

During fiscal year 2022, our Board of Directors declared quarterly dividends of $0.62 per share. 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 in our fiscal year 2022 Form 10-K for further discussion.

Other Planned Uses of Capital

On January 18, 2022, we entered into a definitive agreement to acquire Activision Blizzard, Inc. ("Activision Blizzard") for $95.00 per share in an all-cash transaction valued at $68.7 billion, inclusive of Activision Blizzard's net cash. The acquisition has been approved by Activision Blizzard's shareholders, and we expect it to close in fiscal year 2023, subject to the satisfaction of certain regulatory approvals and other customary closing conditions.

We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology, as well as continue making 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. 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 in our fiscal year 2022 Form 10-K 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 inventories.

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 stand-alone 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 for us) 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.

Research and Development Costs

Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to production. The amortization of these costs is included in cost of revenue over the estimated life of the products.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our consolidated financial statements.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our consolidated financial statements.

Inventories

Inventories are stated at average cost, subject to the lower of cost or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Net realizable value is the estimated selling price less estimated costs of completion, disposal, and transportation. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. These reviews include analysis of demand forecasts, product life cycle status, product development plans, current sales levels, pricing strategy, and component cost trends. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of revenue.

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 will be effective beginning fiscal year 2023. Based on the carrying amount of server and network equipment included in property and equipment, net as of June 30, 2022, it is estimated this change will increase our fiscal year 2023 operating income by $3.7 billion. We had previously increased the estimated useful lives of both server and network equipment in July 2020.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements and related information that are presented in this report. The consolidated financial statements, which include amounts based on management's estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States of America.

The Company designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing consolidated financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of internal audits.

The Company engaged Deloitte & Touche LLP, an independent registered public accounting firm, to audit and render an opinion on the consolidated financial statements and internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Board of Directors, through its Audit Committee, consisting solely of independent directors of the Company, meets periodically with management, internal auditors, and our independent registered public accounting firm to ensure that each is meeting its responsibilities and to discuss matters concerning internal controls and financial reporting. Deloitte & Touche LLP and the internal auditors each have full and free access to the Audit Committee.

Satya Nadella
Chief Executive Officer

Amy E. Hood
Executive Vice President and Chief Financial Officer

Alice L. Jolla
Corporate Vice President and Chief Accounting Officer

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISKS

We are exposed to economic risk from foreign exchange rates, interest rates, credit risk, and equity prices. We use derivatives instruments to manage these risks, however, they may still impact our consolidated financial statements.

Foreign Currencies

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency positions, including hedges. Principal currency exposures include the Euro, Japanese yen, British pound, Canadian dollar, and Australian dollar.

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of the fixed-income portfolio to achieve economic returns that correlate to certain global fixed-income indices.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We manage credit exposures relative to broad-based indices and to facilitate portfolio diversification.

Equity

Securities held in our equity investments portfolio are subject to price risk.

SENSITIVITY ANALYSIS

The following table sets forth the potential loss in future earnings or fair values, including associated derivatives, resulting from hypothetical changes in relevant market rates or prices:

(In millions)

Risk Categories	**Hypothetical Change**	**June 30, 2022**	**Impact**
Foreign currency – Revenue	10% decrease in foreign exchange rates	**$ (6,822)**	Earnings
Foreign currency – Investments	10% decrease in foreign exchange rates	**(94)**	Fair Value
Interest rate	100 basis point increase in U.S. treasury interest rates	**(2,536)**	Fair Value
Credit	100 basis point increase in credit spreads	**(350)**	Fair Value
Equity	10% decrease in equity market prices	**(637)**	Earnings

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INCOME STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	**2022**	**2021**	**2020**
Revenue:			
Product	**$ 72,732**	$ 71,074	$ 68,041
Service and other	**125,538**	97,014	74,974
Total revenue	**198,270**	168,088	143,015
Cost of revenue:			
Product	**19,064**	18,219	16,017
Service and other	**43,586**	34,013	30,061
Total cost of revenue	**62,650**	52,232	46,078
Gross margin	**135,620**	115,856	96,937
Research and development	**24,512**	20,716	19,269
Sales and marketing	**21,825**	20,117	19,598
General and administrative	**5,900**	5,107	5,111
Operating income	**83,383**	69,916	52,959
Other income, net	**333**	1,186	77
Income before income taxes	**83,716**	71,102	53,036
Provision for income taxes	**10,978**	9,831	8,755
Net income	**$ 72,738**	$ 61,271	$ 44,281
Earnings per share:			
Basic	**$ 9.70**	$ 8.12	$ 5.82
Diluted	**$ 9.65**	$ 8.05	$ 5.76
Weighted average shares outstanding:			
Basic	**7,496**	7,547	7,610
Diluted	**7,540**	7,608	7,683

Refer to accompanying notes.

COMPREHENSIVE INCOME STATEMENTS

(In millions)

Year Ended June 30,	**2022**	**2021**	**2020**
Net income	**$ 72,738**	$ 61,271	$ 44,281
Other comprehensive income (loss), net of tax:			
Net change related to derivatives	**6**	19	(38)
Net change related to investments	**(5,360)**	(2,266)	3,990
Translation adjustments and other	**(1,146)**	873	(426)
Other comprehensive income (loss)	**(6,500)**	(1,374)	3,526
Comprehensive income	**$ 66,238**	$ 59,897	$ 47,807

Refer to accompanying notes.

BALANCE SHEETS

(In millions) June 30,	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,931**	$ 14,224
Short-term investments	**90,826**	116,110
Total cash, cash equivalents, and short-term investments	**104,757**	130,334
Accounts receivable, net of allowance for doubtful accounts of **$633** and $751	**44,261**	38,043
Inventories	**3,742**	2,636
Other current assets	**16,924**	13,393
Total current assets	**169,684**	184,406
Property and equipment, net of accumulated depreciation of **$59,660** and $51,351	**74,398**	59,715
Operating lease right-of-use assets	**13,148**	11,088
Equity investments	**6,891**	5,984
Goodwill	**67,524**	49,711
Intangible assets, net	**11,298**	7,800
Other long-term assets	**21,897**	15,075
Total assets	**$ 364,840**	$ 333,779
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	**$ 19,000**	$ 15,163
Current portion of long-term debt	**2,749**	8,072
Accrued compensation	**10,661**	10,057
Short-term income taxes	**4,067**	2,174
Short-term unearned revenue	**45,538**	41,525
Other current liabilities	**13,067**	11,666
Total current liabilities	**95,082**	88,657
Long-term debt	**47,032**	50,074
Long-term income taxes	**26,069**	27,190
Long-term unearned revenue	**2,870**	2,616
Deferred income taxes	**230**	198
Operating lease liabilities	**11,489**	9,629
Other long-term liabilities	**15,526**	13,427
Total liabilities	**198,298**	191,791
Commitments and contingencies		
Stockholders’ equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding **7,464** and 7,519	**86,939**	83,111
Retained earnings	**84,281**	57,055
Accumulated other comprehensive income (loss)	**(4,678)**	1,822
Total stockholders’ equity	**166,542**	141,988
Total liabilities and stockholders’ equity	**$ 364,840**	$ 333,779

Refer to accompanying notes.

CASH FLOWS STATEMENTS

(In millions)

Year Ended June 30,	**2022**	**2021**	**2020**
Operations			
Net income	**$ 72,738**	$ 61,271	$ 44,281
Adjustments to reconcile net income to net cash from operations:			
Depreciation, amortization, and other	**14,460**	11,686	12,796
Stock-based compensation expense	**7,502**	6,118	5,289
Net recognized gains on investments and derivatives	**(409)**	(1,249)	(219)
Deferred income taxes	**(5,702)**	(150)	11
Changes in operating assets and liabilities:			
Accounts receivable	**(6,834)**	(6,481)	(2,577)
Inventories	**(1,123)**	(737)	168
Other current assets	**(709)**	(932)	(2,330)
Other long-term assets	**(2,805)**	(3,459)	(1,037)
Accounts payable	**2,943**	2,798	3,018
Unearned revenue	**5,109**	4,633	2,212
Income taxes	**696**	(2,309)	(3,631)
Other current liabilities	**2,344**	4,149	1,346
Other long-term liabilities	**825**	1,402	1,348
Net cash from operations	**89,035**	76,740	60,675
Financing			
Cash premium on debt exchange	**0**	(1,754)	(3,417)
Repayments of debt	**(9,023)**	(3,750)	(5,518)
Common stock issued	**1,841**	1,693	1,343
Common stock repurchased	**(32,696)**	(27,385)	(22,968)
Common stock cash dividends paid	**(18,135)**	(16,521)	(15,137)
Other, net	**(863)**	(769)	(334)
Net cash used in financing	**(58,876)**	(48,486)	(46,031)
Investing			
Additions to property and equipment	**(23,886)**	(20,622)	(15,441)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	**(22,038)**	(8,909)	(2,521)
Purchases of investments	**(26,456)**	(62,924)	(77,190)
Maturities of investments	**16,451**	51,792	66,449
Sales of investments	**28,443**	14,008	17,721
Other, net	**(2,825)**	(922)	(1,241)
Net cash used in investing	**(30,311)**	(27,577)	(12,223)
Effect of foreign exchange rates on cash and cash equivalents	**(141)**	(29)	(201)
Net change in cash and cash equivalents	**(293)**	648	2,220
Cash and cash equivalents, beginning of period	**14,224**	13,576	11,356
Cash and cash equivalents, end of period	**$ 13,931**	$ 14,224	$ 13,576

Refer to accompanying notes.

STOCKHOLDERS' EQUITY STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	2022	2021	2020
Common stock and paid-in capital			
Balance, beginning of period	**$ 83,111**	$ 80,552	$ 78,520
Common stock issued	**1,841**	1,963	1,343
Common stock repurchased	**(5,688)**	(5,539)	(4,599)
Stock-based compensation expense	**7,502**	6,118	5,289
Other, net	**173**	17	(1)
Balance, end of period	**86,939**	83,111	80,552
Retained earnings			
Balance, beginning of period	**57,055**	34,566	24,150
Net income	**72,738**	61,271	44,281
Common stock cash dividends	**(18,552)**	(16,871)	(15,483)
Common stock repurchased	**(26,960)**	(21,879)	(18,382)
Cumulative effect of accounting changes	**0**	(32)	0
Balance, end of period	**84,281**	57,055	34,566
Accumulated other comprehensive income (loss)			
Balance, beginning of period	**1,822**	3,186	(340)
Other comprehensive income (loss)	**(6,500)**	(1,374)	3,526
Cumulative effect of accounting changes	**0**	10	0
Balance, end of period	**(4,678)**	1,822	3,186
Total stockholders' equity	**$ 166,542**	$ 141,988	$ 118,304
Cash dividends declared per common share	**$ 2.48**	$ 2.24	$ 2.04

Refer to accompanying notes.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

We have recast certain prior period amounts to conform to the current period presentation. The recast of these prior period amounts had no impact on our consolidated balance sheets, consolidated income statements, or consolidated cash flows statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price ("SSP") of performance obligations, variable consideration, and other obligations such as product returns and refunds; loss contingencies; product warranties; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; product life cycles; useful lives of our tangible and intangible assets; allowances for doubtful accounts; the market value of, and demand for, our inventory; stock-based compensation forfeiture rates; when technological feasibility is achieved for our products; the potential outcome of uncertain tax positions that have been recognized in our consolidated financial statements or tax returns; and determining the timing and amount of impairments for investments. Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties.

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 will be effective beginning fiscal year 2023. We had previously increased the estimated useful lives of both server and network equipment in July 2020.

Foreign Currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded to other comprehensive income.

Revenue

Product Revenue and Service and Other Revenue

Product revenue includes sales from operating systems, cross-device productivity applications, server applications, business solution applications, desktop and server management tools, software development tools, video games, and hardware such as PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories.

Service and other revenue includes sales from cloud-based solutions that provide customers with software, services, platforms, and content such as Office 365, Azure, Dynamics 365, and Xbox; solution support; and consulting services. Service and other revenue also includes sales from online advertising and LinkedIn.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Products and Services

Licenses for on-premises software provide the customer with a right to use the software as it exists when made available to the customer. Customers may purchase perpetual licenses or subscribe to licenses, which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the software. Revenue from distinct on-premises licenses is recognized upfront at the point in time when the software is made available to the customer. In cases where we allocate revenue to software updates, primarily because the updates are provided at no additional charge, revenue is recognized as the updates are provided, which is generally ratably over the estimated life of the related device or license.

Certain volume licensing programs, including Enterprise Agreements, include on-premises licenses combined with Software Assurance ("SA"). SA conveys rights to new software and upgrades released over the contract period and provides support, tools, and training to help customers deploy and use products more efficiently. On-premises licenses are considered distinct performance obligations when sold with SA. Revenue allocated to SA is generally recognized ratably over the contract period as customers simultaneously consume and receive benefits, given that SA comprises distinct performance obligations that are satisfied over time.

Cloud services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on either a subscription or consumption basis. Revenue related to cloud services provided on a subscription basis is recognized ratably over the contract period. Revenue related to cloud services provided on a consumption basis, such as the amount of storage used in a period, is recognized based on the customer utilization of such resources. When cloud services require a significant level of integration and interdependency with software and the individual components are not considered distinct, all revenue is recognized over the period in which the cloud services are provided.

Revenue from search advertising is recognized when the advertisement appears in the search results or when the action necessary to earn the revenue has been completed. Revenue from consulting services is recognized as services are provided.

Our hardware is generally highly dependent on, and interrelated with, the underlying operating system and cannot function without the operating system. In these cases, the hardware and software license are accounted for as a single performance obligation and revenue is recognized at the point in time when ownership is transferred to resellers or directly to end customers through retail stores and online marketplaces.

Refer to Note 19 – Segment Information and Geographic Data for further information, including revenue by significant product and service offering.

Significant Judgments

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 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.

Contract Balances and Other Receivables

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognized prior to invoicing, or unearned revenue when revenue is recognized subsequent to invoicing. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period. We record a receivable related to revenue recognized for multi-year on-premises licenses as we have an unconditional right to invoice and receive payment in the future related to those licenses.

Unearned revenue comprises mainly unearned revenue related to volume licensing programs, which may include 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 consulting services to be performed in the future, LinkedIn subscriptions, Office 365 subscriptions, Xbox subscriptions, Windows post-delivery support, Dynamics business solutions, and 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 13 – Unearned Revenue for further information, including unearned revenue by segment and changes in unearned revenue during the period.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period, and multi-year on-premises licenses that are invoiced annually with revenue recognized upfront.

As of June 30, 2022 and 2021, other receivables due from suppliers were $1.0 billion and $965 million, respectively, and are included in accounts receivable, net in our consolidated balance sheets.

As of June 30, 2022 and 2021, long-term accounts receivable, net of allowance for doubtful accounts, was $3.8 billion and $3.4 billion, respectively, and is included in other long-term assets in our consolidated balance sheets.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Activity in the allowance for doubtful accounts was as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Balance, beginning of period	**$ 798**	$ 816	$ 434
Charged to costs and other	**157**	234	560
Write-offs	**(245)**	(252)	(178)
Balance, end of period	**$ 710**	$ 798	$ 816

Allowance for doubtful accounts included in our consolidated balance sheets:

(In millions)			
June 30,	**2022**	**2021**	**2020**
Accounts receivable, net of allowance for doubtful accounts	**$ 633**	$ 751	$ 788
Other long-term assets	**77**	47	28
Total	**$ 710**	$ 798	$ 816

We record financing receivables when we offer certain of our customers the option to acquire our software products and services offerings through a financing program in a limited number of countries. As of June 30, 2022 and 2021, our financing receivables, net were $4.1 billion and $4.4 billion, respectively, for short-term and long-term financing receivables, which are included in other current assets and other long-term assets in our consolidated balance sheets. We record an allowance to cover expected losses based on troubled accounts, historical experience, and other currently available evidence.

Assets Recognized from Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive programs meet the requirements to be capitalized. Total capitalized costs to obtain a contract were immaterial during the periods presented and are included in other current and long-term assets in our consolidated balance sheets.

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. These costs include our internal sales force compensation program and certain partner sales incentive programs as we have determined annual compensation is commensurate with annual sales activities.

Cost of Revenue

Cost of revenue includes: manufacturing and distribution costs for products sold and programs licensed; operating costs related to product support service centers and product distribution centers; costs incurred to include software on PCs sold by original equipment manufacturers (“OEM”), to drive traffic to our websites, and to acquire online advertising space; costs incurred to support and maintain online products and services, including datacenter costs and royalties; warranty costs; inventory valuation adjustments; costs associated with the delivery of consulting services; and the amortization of capitalized software development costs. Capitalized software development costs are amortized over the estimated lives of the products.

Product Warranty

We provide for the estimated costs of fulfilling our obligations under hardware and software warranties at the time the related revenue is recognized. For hardware warranties, we estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and the country in which we do business, but generally include parts and labor over a period generally ranging from 90 days to three years. For software warranties, we estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. We regularly reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Research and Development

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, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Such costs related to software development are included in research and development expense until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are released to production. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

Sales and Marketing

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. Advertising costs are expensed as incurred. Advertising expense was $1.5 billion, $1.5 billion, and $1.6 billion in fiscal years 2022, 2021, and 2020, respectively.

Stock-Based Compensation

Compensation cost for stock awards, which include restricted stock units (“RSUs”) and performance stock units (“PSUs”), is measured at the fair value on the grant date and recognized as expense, net of estimated forfeitures, over the related service or performance period. The fair value of stock awards is based on the quoted price of our common stock on the grant date less the present value of expected dividends not received during the vesting period. We measure the fair value of PSUs using a Monte Carlo valuation model. Compensation cost for RSUs is recognized using the straight-line method and for PSUs is recognized using the accelerated method.

Compensation expense for the employee stock purchase plan (“ESPP”) is measured as the discount the employee is entitled to upon purchase and is recognized in the period of purchase.

Income Taxes

Income tax expense includes U.S. and international income taxes, and interest and penalties on uncertain tax positions. Certain income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are reported net of a valuation allowance when it is more likely than not that a tax benefit will not be realized. All deferred income taxes are classified as long-term in our consolidated balance sheets.

Financial Instruments

Investments

We consider all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding credit losses and impairments, are recorded in other comprehensive income. Fair value is calculated based on publicly available market information or other estimates determined by management. 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. To determine credit losses, we employ a systematic methodology that considers available quantitative and qualitative evidence. 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 with readily determinable fair values are measured at fair value. Equity investments without readily determinable fair values are measured using the equity method or measured at cost with adjustments for observable changes in price or impairments (referred to as the measurement alternative). We perform a qualitative assessment on a periodic basis and recognize an impairment if there are sufficient indicators that the fair value of the investment is less than carrying value. Changes in value are recorded in other income (expense), net.

Derivatives

Derivative instruments are recognized as either assets or liabilities and measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as fair value hedges, gains and losses are recognized in other income (expense), net with offsetting gains and losses on the hedged items. Gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in other income (expense), net.

For derivative instruments designated as cash flow hedges, gains and losses are initially reported as a component of other comprehensive income and subsequently recognized in other income (expense), net with the corresponding hedged item. Gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in other income (expense), net.

For derivative instruments that are not designated as hedges, gains and losses from changes in fair values are primarily recognized in other income (expense), net.

Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments in active markets. Our Level 1 investments include U.S. government securities, common and preferred stock, and mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.

- *Level 2* – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies. Our Level 2 investments include commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Our Level 2 derivative assets and liabilities include certain over-the-counter forward, option, and swap contracts.
- *Level 3* – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 assets and liabilities include investments in corporate notes and bonds, municipal securities, and goodwill and intangible assets, when they are recorded at fair value due to an impairment charge. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

We measure equity investments without readily determinable fair values on a nonrecurring basis. The fair values of these investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections.

Inventories

Inventories are stated at average cost, subject to the lower of cost or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Net realizable value is the estimated selling price less estimated costs of completion, disposal, and transportation. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of revenue.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation, and depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are generally as follows: computer software developed or acquired for internal use, three to seven years; computer equipment, two to four years; buildings and improvements, five to 15 years; leasehold improvements, three to 20 years; and furniture and equipment, one to 10 years. Land is not depreciated.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Goodwill

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 for us) 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.

Intangible Assets

Our intangible assets are subject to amortization and are amortized using the straight-line method over their estimated period of benefit, ranging from one to 20 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Recent Accounting Guidance

Accounting for Income Taxes

In December 2019, the Financial Accounting Standards Board issued a new standard to simplify the accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. We adopted the standard effective July 1, 2021. Adoption of the standard did not have a material impact on our consolidated financial statements.

NOTE 2 — EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

The components of basic and diluted EPS were as follows:

(In millions, except earnings per share)

Year Ended June 30,	**2022**	**2021**	**2020**
Net income available for common shareholders (A)	**$ 72,738**	$ 61,271	$ 44,281
Weighted average outstanding shares of common stock (B)	**7,496**	7,547	7,610
Dilutive effect of stock-based awards	**44**	61	73
Common stock and common stock equivalents (C)	**7,540**	7,608	7,683
Earnings Per Share			
Basic (A/B)	**$ 9.70**	$ 8.12	$ 5.82
Diluted (A/C)	**$ 9.65**	$ 8.05	$ 5.76

Anti-dilutive stock-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented.

NOTE 3 — OTHER INCOME (EXPENSE), NET

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

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Interest and dividends income	**$ 2,094**	$ 2,131	$ 2,680
Interest expense	**(2,063)**	(2,346)	(2,591)
Net recognized gains on investments	**461**	1,232	32
Net gains (losses) on derivatives	**(52)**	17	187
Net gains (losses) on foreign currency remeasurements	**(75)**	54	(191)
Other, net	**(32)**	98	(40)
Total	**$ 333**	$ 1,186	$ 77

Net Recognized Gains (Losses) on Investments

Net recognized gains (losses) on debt investments were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Realized gains from sales of available-for-sale securities	**$ 162**	$ 105	$ 50
Realized losses from sales of available-for-sale securities	**(138)**	(40)	(37)
Impairments and allowance for credit losses	**(81)**	(2)	(17)
Total	**$ (57)**	$ 63	$ (4)

Net recognized gains (losses) on equity investments were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Net realized gains on investments sold	**$ 29**	$ 123	$ 83
Net unrealized gains on investments still held	**509**	1,057	69
Impairments of investments	**(20)**	(11)	(116)
Total	**$ 518**	$ 1,169	$ 36

NOTE 4 — INVESTMENTS

Investment Components

The components of investments were as follows:

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
June 30, 2022								
Changes in Fair Value Recorded in Other Comprehensive Income								
Commercial paper	Level 2	**$ 2,500**	**$ 0**	**$ 0**	**$ 2,500**	**$ 2,498**	**$ 2**	**$ 0**
Certificates of deposit	Level 2	**2,071**	**0**	**0**	**2,071**	**2,032**	**39**	**0**
U.S. government securities	Level 1	**79,696**	**29**	**(2,178)**	**77,547**	**9**	**77,538**	**0**
U.S. agency securities	Level 2	**419**	**0**	**(9)**	**410**	**0**	**410**	**0**
Foreign government bonds	Level 2	**506**	**0**	**(24)**	**482**	**0**	**482**	**0**
Mortgage- and asset-backed securities	Level 2	**727**	**1**	**(30)**	**698**	**0**	**698**	**0**
Corporate notes and bonds	Level 2	**11,661**	**4**	**(554)**	**11,111**	**0**	**11,111**	**0**
Corporate notes and bonds	Level 3	**67**	**0**	**0**	**67**	**0**	**67**	**0**
Municipal securities	Level 2	**368**	**19**	**(13)**	**374**	**0**	**374**	**0**
Municipal securities	Level 3	**103**	**0**	**(6)**	**97**	**0**	**97**	**0**
Total debt investments		**$ 98,118**	**$ 53**	**$ (2,814)**	**$ 95,357**	**$ 4,539**	**$ 90,818**	**$ 0**
Changes in Fair Value Recorded in Net Income								
Equity investments	Level 1				**$ 1,590**	**$ 1,134**	**$ 0**	**$ 456**
Equity investments	Other				**6,435**	**0**	**0**	**6,435**
Total equity investments					**$ 8,025**	**$ 1,134**	**$ 0**	**$ 6,891**
Cash					**$ 8,258**	**$ 8,258**	**$ 0**	**$ 0**
Derivatives, net [(a)]					**8**	**0**	**8**	**0**
Total					**$111,648**	**$ 13,931**	**$ 90,826**	**$ 6,891**

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
June 30, 2021								
Changes in Fair Value Recorded in Other Comprehensive Income								
Commercial paper	Level 2	$ 4,316	$ 0	$ 0	$ 4,316	$ 1,331	$ 2,985	$ 0
Certificates of deposit	Level 2	3,615	0	0	3,615	2,920	695	0
U.S. government securities	Level 1	90,664	3,832	(111)	94,385	1,500	92,885	0
U.S. agency securities	Level 2	807	2	0	809	0	809	0
Foreign government bonds	Level 2	6,213	9	(2)	6,220	225	5,995	0

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
June 30, 2021								
Mortgage- and asset-backed securities	Level 2	3,442	22	(6)	3,458	0	3,458	0
Corporate notes and bonds	Level 2	8,443	249	(9)	8,683	0	8,683	0
Corporate notes and bonds	Level 3	63	0	0	63	0	63	0
Municipal securities	Level 2	308	63	0	371	0	371	0
Municipal securities	Level 3	95	0	(7)	88	0	88	0
Total debt investments		$ 117,966	$ 4,177	$ (135)	$ 122,008	$ 5,976	$ 116,032	$ 0
Changes in Fair Value Recorded in Net Income								
Equity investments	Level 1				$ 1,582	$ 976	$ 0	$ 606
Equity investments	Other				5,378	0	0	5,378
Total equity investments					$ 6,960	$ 976	$ 0	$ 5,984
Cash					$ 7,272	$ 7,272	$ 0	$ 0
Derivatives, net (a)					78	0	78	0
Total					$ 136,318	$ 14,224	$ 116,110	$ 5,984

(a) *Refer to Note 5 – Derivatives for further information on the fair value of our derivative instruments.*

Equity investments presented as "Other" in the tables above include investments without readily determinable fair values measured using the equity method or measured at cost with adjustments for observable changes in price or impairments, and investments measured at fair value using net asset value as a practical expedient which are not categorized in the fair value hierarchy. As of June 30, 2022 and 2021, equity investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments were $3.8 billion and $3.3 billion, respectively.

Unrealized Losses on Debt Investments

Debt investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2022						
U.S. government and agency securities	**$ 59,092**	**$ (1,835)**	**$ 2,210**	**$ (352)**	**$ 61,302**	**$(2,187)**
Foreign government bonds	**418**	**(18)**	**27**	**(6)**	**445**	**(24)**
Mortgage- and asset-backed securities	**510**	**(26)**	**41**	**(4)**	**551**	**(30)**
Corporate notes and bonds	**9,443**	**(477)**	**786**	**(77)**	**10,229**	**(554)**
Municipal securities	**178**	**(12)**	**74**	**(7)**	**252**	**(19)**
Total	**$ 69,641**	**$ (2,368)**	**$ 3,138**	**$ (446)**	**$ 72,779**	**$ (2,814)**

(In millions)	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Greater Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2021						
U.S. government and agency securities	$ 5,294	$ (111)	$ 0	$ 0	$ 5,294	$ (111)
Foreign government bonds	3,148	(1)	5	(1)	3,153	(2)
Mortgage- and asset-backed securities	1,211	(5)	87	(1)	1,298	(6)
Corporate notes and bonds	1,678	(8)	34	(1)	1,712	(9)
Municipal securities	58	(7)	1	0	59	(7)
Total	$ 11,389	$ (132)	$ 127	$ (3)	$ 11,516	$ (135)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent impairments based on our evaluation of available evidence.

Debt Investment Maturities

(In millions)	Adjusted Cost Basis	Estimated Fair Value
June 30, 2022		
Due in one year or less	**$ 26,480**	**$ 26,470**
Due after one year through five years	**52,006**	**50,748**
Due after five years through 10 years	**18,274**	**16,880**
Due after 10 years	**1,358**	**1,259**
Total	**$ 98,118**	**$ 95,357**

NOTE 5 — DERIVATIVES

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. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment.

Foreign Currencies

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions.

Foreign currency risks related to certain non-U.S. dollar-denominated investments are hedged using foreign exchange forward contracts that are designated as fair value hedging instruments. Foreign currency risks related to certain Euro-denominated debt are hedged using foreign exchange forward contracts that are designated as cash flow hedging instruments.

Certain options and forwards not designated as hedging instruments are also used to manage the variability in foreign exchange rates on certain balance sheet amounts and to manage other foreign currency exposures.

Interest Rate

Interest rate risks related to certain fixed-rate debt are hedged using interest rate swaps that are designated as fair value hedging instruments to effectively convert the fixed interest rates to floating interest rates.

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using exchange-traded option and futures contracts and over-the-counter swap and option contracts. These contracts are not designated as hedging instruments and are included in “Other contracts” in the tables below.

Equity

Securities held in our equity investments portfolio are subject to market price risk. At times, we may hold options, futures, and swap contracts. These contracts are not designated as hedging instruments and are included in “Other contracts” in the tables below.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. These contracts are not designated as hedging instruments and are included in “Other contracts” in the tables below.

Credit-Risk-Related Contingent Features

Certain of our counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain minimum liquidity of $1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of June 30, 2022, our long-term unsecured debt rating was AAA, and cash investments were in excess of $1.0 billion. As a result, no collateral was required to be posted.

The following table presents the notional amounts of our outstanding derivative instruments measured in U.S. dollar equivalents:

(In millions)	June 30, 2022	June 30, 2021
Designated as Hedging Instruments		
Foreign exchange contracts purchased	**$ 635**	$ 635
Foreign exchange contracts sold	**0**	6,081
Interest rate contracts purchased	**1,139**	1,247
Not Designated as Hedging Instruments		
Foreign exchange contracts purchased	**10,322**	14,223
Foreign exchange contracts sold	**21,606**	23,391
Other contracts purchased	**2,773**	2,456
Other contracts sold	**544**	763

Fair Values of Derivative Instruments

The following table presents our derivative instruments:

(In millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
		June 30, 2022		June 30, 2021
Designated as Hedging Instruments				
Foreign exchange contracts	**$ 0**	**$(77)**	$ 76	$ (8)

(In millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
		June 30, 2022		June 30, 2021
Interest rate contracts	**3**	**0**	40	0
Not Designated as Hedging Instruments				
Foreign exchange contracts	**333**	**(362)**	227	(291)
Other contracts	**20**	**(112)**	56	(36)
Gross amounts of derivatives	**356**	**(551)**	399	(335)
Gross amounts of derivatives offset in the balance sheet	**(130)**	**133**	(141)	142
Cash collateral received	**0**	**(75)**	0	(42)
Net amounts of derivatives	**$ 226**	**$ (493)**	$ 258	$ (235)
Reported as				
Short-term investments	**$ 8**	**$ 0**	$ 78	$ 0
Other current assets	**218**	**0**	137	0
Other long-term assets	**0**	**0**	43	0
Other current liabilities	**0**	**(298)**	0	(182)
Other long-term liabilities	**0**	**(195)**	0	(53)
Total	**$ 226**	**$ (493)**	$ 258	$ (235)

Gross derivative assets and liabilities subject to legally enforceable master netting agreements for which we have elected to offset were $343 million and $550 million, respectively, as of June 30, 2022, and $395 million and $335 million, respectively, as of June 30, 2021.

The following table presents the fair value of our derivatives instruments on a gross basis:

(In millions)	Level 1	Level 2	Level 3	Total
June 30, 2022				
Derivative assets	**$ 1**	**$ 349**	**$ 6**	**$ 356**
Derivative liabilities	**0**	**(551)**	**0**	**(551)**
June 30, 2021				
Derivative assets	0	396	3	399
Derivative liabilities	0	(335)	0	(335)

Gains (losses) on derivative instruments recognized in other income (expense), net were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Designated as Fair Value Hedging Instruments			
Foreign exchange contracts			
Derivatives	**$ 49**	$ 193	$ 1
Hedged items	**(50)**	(188)	3
Excluded from effectiveness assessment	**4**	30	139
Interest rate contracts			
Derivatives	**(92)**	(37)	93
Hedged items	**108**	53	(93)
Designated as Cash Flow Hedging Instruments			
Foreign exchange contracts			
Amount reclassified from accumulated other comprehensive income	**(79)**	17	0
Not Designated as Hedging Instruments			
Foreign exchange contracts	**383**	27	(123)
Other contracts	**(72)**	9	50

Gains (losses), net of tax, on derivative instruments recognized in our consolidated comprehensive income statements were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Designated as Cash Flow Hedging Instruments			
Foreign exchange contracts			
Included in effectiveness assessment	**$ (57)**	$ 34	$ (38)

NOTE 6 — INVENTORIES

The components of inventories were as follows:

(In millions)		
June 30,	**2022**	**2021**
Raw materials	**$ 1,144**	$ 1,190
Work in process	**82**	79
Finished goods	**2,516**	1,367
Total	**$ 3,742**	$ 2,636

NOTE 7 — PROPERTY AND EQUIPMENT

The components of property and equipment were as follows:

(In millions)		
June 30,	**2022**	**2021**
Land	**$ 4,734**	$ 3,660
Buildings and improvements	**55,014**	43,928
Leasehold improvements	**7,819**	6,884
Computer equipment and software	**60,631**	51,250
Furniture and equipment	**5,860**	5,344
Total, at cost	**134,058**	111,066
Accumulated depreciation	**(59,660)**	(51,351)
Total, net	**$ 74,398**	$ 59,715

During fiscal years 2022, 2021, and 2020, depreciation expense was $12.6 billion, $9.3 billion, and $10.7 billion, respectively. We have committed $8.5 billion, primarily related to datacenters, for the construction of new buildings, building improvements, and leasehold improvements as of June 30, 2022.

NOTE 8 — BUSINESS COMBINATIONS

Nuance Communications, Inc.

On March 4, 2022, we completed our acquisition of Nuance Communications, Inc. ("Nuance") for a total purchase price of $18.8 billion, consisting primarily of cash. Nuance is a cloud and artificial intelligence ("AI") software provider with healthcare and enterprise AI experience, and the acquisition will build on our industry-specific cloud offerings. The financial results of Nuance have been included in our consolidated financial statements since the date of the acquisition. Nuance is reported as part of our Intelligent Cloud segment.

The purchase price allocation as of the date of acquisition was based on a preliminary valuation and is subject to revision as more detailed analyses are completed and additional information about the fair value of assets acquired and liabilities assumed becomes available.

The major classes of assets and liabilities to which we have preliminarily allocated the purchase price were as follows:

(In millions)	
Goodwill [(a)]	$ 16,308
Intangible assets	4,365
Other assets	59
Other liabilities [(b)]	(1,971)
Total	$ 18,761

(a) *Goodwill was assigned to our Intelligent Cloud segment and was primarily attributed to increased synergies that are expected to be achieved from the integration of Nuance. None of the goodwill is expected to be deductible for income tax purposes.*

(b) *Includes $986 million of convertible senior notes issued by Nuance in 2015 and 2017, of which $985 million was redeemed prior to June 30, 2022. The remaining $1 million of notes are redeemable through their respective maturity dates and are included in other current liabilities on our consolidated balance sheets as of June 30, 2022.*

Following are the details of the purchase price allocated to the intangible assets acquired:

(In millions, except average life)	Amount	Weighted Average Life
Customer-related	$2,610	9 years
Technology-based	1,540	5 years
Marketing-related	215	4 years
Total	$4,365	7 years

ZeniMax Media Inc.

On March 9, 2021, we completed our acquisition of ZeniMax Media Inc. (“ZeniMax”), the parent company of Bethesda Softworks LLC (“Bethesda”), for a total purchase price of $8.1 billion, consisting primarily of cash. The purchase price included $766 million of cash and cash equivalents acquired. Bethesda is one of the largest, privately held game developers and publishers in the world, and brings a broad portfolio of games, technology, and talent to Xbox. The financial results of ZeniMax have been included in our consolidated financial statements since the date of the acquisition. ZeniMax is reported as part of our More Personal Computing segment.

The allocation of the purchase price to goodwill was completed as of December 31, 2021. The major classes of assets and liabilities to which we have allocated the purchase price were as follows:

(In millions)	
Cash and cash equivalents	$ 766
Goodwill	5,510
Intangible assets	1,968
Other assets	121
Other liabilities	(244)
Total	$ 8,121

Goodwill was assigned to our More Personal Computing segment. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of ZeniMax. None of the goodwill is expected to be deductible for income tax purposes.

Following are details of the purchase price allocated to the intangible assets acquired:

(In millions, except average life)	Amount	Weighted Average Life
Technology-based	$ 1,341	4 years
Marketing-related	627	11 years
Total	$ 1,968	6 years

Activision Blizzard, Inc.

On January 18, 2022, we entered into a definitive agreement to acquire Activision Blizzard, Inc. ("Activision Blizzard") for $95.00 per share in an all-cash transaction valued at $68.7 billion, inclusive of Activision Blizzard's net cash. Activision Blizzard is a leader in game development and an interactive entertainment content publisher. The acquisition will accelerate the growth in our gaming business across mobile, PC, console, and cloud and will provide building blocks for the metaverse. The acquisition has been approved by Activision Blizzard's shareholders, and we expect it to close in fiscal year 2023, subject to the satisfaction of certain regulatory approvals and other customary closing conditions.

NOTE 9 — GOODWILL

Changes in the carrying amount of goodwill were as follows:

(In millions)	June 30, 2020	Acquisitions	Other	June 30, 2021	Acquisitions	Other	June 30, 2022
Productivity and Business Processes	$ 24,190	$ 0	$ 127	**$ 24,317**	**$ 599**	**$ (105)**	**$ 24,811**
Intelligent Cloud	12,697	505	54	**13,256**	**16,879** (b)	**47** (b)	**30,182**
More Personal Computing	6,464	5,556 (a)	118 (a)	**12,138**	**648**	**(255)**	**12,531**
Total	$ 43,351	$ 6,061	$ 299	**$ 49,711**	**$ 18,126**	**$ (313)**	**$ 67,524**

(a) *Includes goodwill of $5.5 billion related to ZeniMax. See Note 8 – Business Combinations for further information.*
(b) *Includes goodwill of $16.3 billion related to Nuance. See Note 8 – Business Combinations for further information.*

The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but do not exceed 12 months. Adjustments in purchase price allocations may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined.

Any change in the goodwill amounts resulting from foreign currency translations and purchase accounting adjustments are presented as "Other" in the table above. Also included in "Other" are business dispositions and transfers between segments due to reorganizations, as applicable.

Goodwill Impairment

We test goodwill for impairment annually on May 1 at the reporting unit level, primarily using a discounted cash flow methodology with a peer-based, risk-adjusted weighted average cost of capital. We believe use of a discounted cash flow approach is the most reliable indicator of the fair values of the businesses.

No instances of impairment were identified in our May 1, 2022, May 1, 2021, or May 1, 2020 tests. As of June 30, 2022 and 2021, accumulated goodwill impairment was $11.3 billion.

NOTE 10 — INTANGIBLE ASSETS

The components of intangible assets, all of which are finite-lived, were as follows:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30,			**2022**			**2021**
Technology-based	**$ 11,277**	**$ (6,958)**	**$ 4,319**	$ 9,779	$ (7,007)	$ 2,772
Customer-related	**7,342**	**(3,171)**	**4,171**	4,958	(2,859)	2,099
Marketing-related	**4,942**	**(2,143)**	**2,799**	4,792	(1,878)	2,914
Contract-based	**16**	**(7)**	**9**	446	(431)	15
Total	**$ 23,577** (a)	**$ (12,279)**	**$ 11,298**	$ 19,975 (b)	$ (12,175)	$ 7,800

(a) *Includes intangible assets of $4.4 billion related to Nuance. See Note 8 – Business Combinations for further information.*
(b) *Includes intangible assets of $2.0 billion related to ZeniMax. See Note 8 – Business Combinations for further information.*

No material impairments of intangible assets were identified during fiscal years 2022, 2021, or 2020. We estimate that we have no significant residual value related to our intangible assets.

The components of intangible assets acquired during the periods presented were as follows:

(In millions)	Amount	Weighted Average Life	Amount	Weighted Average Life
Year Ended June 30,	**2022**		**2021**	
Technology-based	**$ 2,611**	**4 years**	$ 1,628	4 years
Customer-related	**2,837**	**9 years**	96	4 years
Marketing-related	**233**	**4 years**	625	6 years
Contract-based	**0**	**0 years**	10	3 years
Total	**$ 5,681**	**7 years**	$ 2,359	5 years

Intangible assets amortization expense was $2.0 billion, $1.6 billion, and $1.6 billion for fiscal years 2022, 2021, and 2020, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held as of June 30, 2022:

(In millions)	
Year Ending June 30,	
2023	**$ 2,654**
2024	**2,385**
2025	**1,631**
2026	**1,227**
2027	**809**
Thereafter	**2,592**
Total	**$ 11,298**

NOTE 11 — DEBT

The components of debt were as follows:

(In millions, issuance by calendar year)	Maturities (calendar year)	Stated Interest Rate	Effective Interest Rate	June 30, 2022	June 30, 2021
2009 issuance of $3.8 billion [(a)]	**2039**	**5.20%**	**5.24%**	**$ 520**	$ 520
2010 issuance of $4.8 billion [(a)]	**2040**	**4.50%**	**4.57%**	**486**	486
2011 issuance of $2.3 billion [(a)]	**2041**	**5.30%**	**5.36%**	**718**	718
2012 issuance of $2.3 billion [(a)]	**2022–2042**	**2.13%–3.50%**	**2.24%–3.57%**	**1,204**	1,204
2013 issuance of $5.2 billion [(a)]	**2023–2043**	**2.38%–4.88%**	**2.47%–4.92%**	**2,814**	2,814
2013 issuance of €4.1 billion	**2028–2033**	**2.63%–3.13%**	**2.69%–3.22%**	**2,404**	4,803
2015 issuance of $23.8 billion [(a)]	**2022–2055**	**2.65%–4.75%**	**2.72%–4.78%**	**10,805**	12,305
2016 issuance of $19.8 billion [(a)]	**2023–2056**	**2.00%–3.95%**	**2.10%–4.03%**	**9,430**	12,180
2017 issuance of $17.0 billion [(a)]	**2024–2057**	**2.88%–4.50%**	**3.04%–4.53%**	**8,945**	10,695
2020 issuance of $10.0 billion [(a)]	**2050–2060**	**2.53%–2.68%**	**2.53%–2.68%**	**10,000**	10,000
2021 issuance of $8.2 billion [(a)]	**2052–2062**	**2.92%–3.04%**	**2.92%–3.04%**	**8,185**	8,185
Total face value				**55,511**	63,910

(In millions, issuance by calendar year)	Maturities (calendar year)	Stated Interest Rate	Effective Interest Rate	June 30, 2022	June 30, 2021
Unamortized discount and issuance costs				**(471)**	(511)
Hedge fair value adjustments [(b)]				**(68)**	40
Premium on debt exchange [(a)]				**(5,191)**	(5,293)
Total debt				**49,781**	58,146
Current portion of long-term debt				**(2,749)**	(8,072)
Long-term debt				**$ 47,032**	$ 50,074

(a) *In March 2021 and June 2020, we exchanged a portion of our existing debt at a premium for cash and new debt with longer maturities. The premiums are amortized over the terms of the new debt.*

(b) *Refer to Note 5 – Derivatives for further information on the interest rate swaps related to fixed-rate debt.*

As of June 30, 2022 and 2021, the estimated fair value of long-term debt, including the current portion, was $50.9 billion and $70.0 billion, respectively. The estimated fair values are based on Level 2 inputs.

Debt in the table above is comprised of senior unsecured obligations and ranks equally with our other outstanding obligations. Interest is paid semi-annually, except for the Euro-denominated debt, which is paid annually. Cash paid for interest on our debt for fiscal years 2022, 2021, and 2020 was $1.9 billion, $2.0 billion, and $2.4 billion, respectively.

The following table outlines maturities of our long-term debt, including the current portion, as of June 30, 2022:

(In millions)	
Year Ending June 30,	
2023	**$ 2,750**
2024	**5,250**
2025	**2,250**
2026	**3,000**
2027	**8,000**
Thereafter	**34,261**
Total	**$ 55,511**

NOTE 12 — INCOME TAXES

Provision for Income Taxes

The components of the provision for income taxes were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Current Taxes			
U.S. federal	**$ 8,329**	$ 3,285	$ 3,537
U.S. state and local	**1,679**	1,229	763
Foreign	**6,672**	5,467	4,444
Current taxes	**$ 16,680**	$ 9,981	$ 8,744
Deferred Taxes			
U.S. federal	**$ (4,815)**	$ 25	$ 58
U.S. state and local	**(1,062)**	(204)	(6)
Foreign	**175**	29	(41)
Deferred taxes	**$ (5,702)**	$ (150)	$ 11
Provision for income taxes	**$ 10,978**	$ 9,831	$ 8,755

U.S. and foreign components of income before income taxes were as follows:

(In millions)

Year Ended June 30,	**2022**	**2021**	**2020**
U.S.	**$ 47,837**	$ 34,972	$ 24,116
Foreign	**35,879**	36,130	28,920
Income before income taxes	**$ 83,716**	$ 71,102	$ 53,036

Effective Tax Rate

The items accounting for the difference between income taxes computed at the U.S. federal statutory rate and our effective rate were as follows:

Year Ended June 30,	**2022**	**2021**	**2020**
Federal statutory rate	**21.0%**	21.0%	21.0%
Effect of:			
Foreign earnings taxed at lower rates	**(1.3)%**	(2.7)%	(3.7)%
Impact of intangible property transfers	**(3.9)%**	0%	0%
Foreign-derived intangible income deduction	**(1.1)%**	(1.3)%	(1.1)%
State income taxes, net of federal benefit	**1.4%**	1.4%	1.3%
Research and development credit	**(0.9)%**	(0.9)%	(1.1)%
Excess tax benefits relating to stock-based compensation	**(1.9)%**	(2.4)%	(2.2)%
Interest, net	**0.5%**	0.5%	1.0%
Other reconciling items, net	**(0.7)%**	(1.8)%	1.3%
Effective rate	**13.1%**	13.8%	16.5%

In the first quarter of fiscal year 2022, we transferred certain intangible properties from our Puerto Rico subsidiary to the U.S. The transfer of intangible properties resulted in a $3.3 billion net income tax benefit in the first quarter of fiscal year 2022, as the value of future U.S. tax deductions exceeds the current tax liability from the U.S. global intangible low-taxed income (“GILTI”) tax.

We have historically paid India withholding taxes on software sales through distributor withholding and tax audit assessments in India. In March 2021, the India Supreme Court ruled favorably in the case of Engineering Analysis Centre of Excellence Private Limited vs The Commissioner of Income Tax for companies in 86 separate appeals, some dating back to 2012, holding that software sales are not subject to India withholding taxes. Although we were not a party to the appeals, our software sales in India were determined to be not subject to withholding taxes. Therefore, we recorded a net income tax benefit of $620 million in the third quarter of fiscal year 2021 to reflect the results of the India Supreme Court decision impacting fiscal year 1996 through fiscal year 2016.

The decrease from the federal statutory rate in fiscal year 2022 is primarily due to the net income tax benefit related to the transfer of intangible properties, 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, and tax benefits relating to stock-based compensation. The decrease from the federal statutory rate in fiscal year 2021 is 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 centers in Ireland and Puerto Rico, tax benefits relating to stock-based compensation, and tax benefits from the India Supreme Court decision on withholding taxes. The decrease from the federal statutory rate in fiscal year 2020 is 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 centers in Ireland and Puerto Rico, and tax benefits relating to stock-based compensation. In fiscal years 2022, 2021, and 2020, our foreign regional operating centers in Ireland and Puerto Rico, which are taxed at rates lower than the U.S. rate, generated 71%, 82%, and 86% of our foreign income before tax. Other reconciling items, net consists primarily of tax credits and GILTI tax, and in fiscal year 2021, includes tax benefits from the India Supreme Court decision on withholding taxes. In fiscal years 2022, 2021, and 2020, there were no individually significant other reconciling items.

The decrease in our effective tax rate for fiscal year 2022 compared to fiscal year 2021 was primarily due to a $3.3 billion net income tax benefit in the first quarter of fiscal year 2022 related to the transfer of intangible properties, offset in part by changes in the mix of our income before income taxes between the U.S. and foreign countries, as well as tax benefits in the prior year from the India Supreme Court decision on withholding taxes, an agreement between the U.S. and India tax authorities related to transfer pricing, and final Tax Cuts and Jobs Act ("TCJA") regulations. The decrease in our effective tax rate for fiscal year 2021 compared to fiscal year 2020 was primarily due to tax benefits from the India Supreme Court decision on withholding taxes, an agreement between the U.S. and India tax authorities related to transfer pricing, final TCJA regulations, and an increase in tax benefits relating to stock-based compensation.

The components of the deferred income tax assets and liabilities were as follows:

(In millions)

June 30,	**2022**	**2021**
Deferred Income Tax Assets		
Stock-based compensation expense	**$ 601**	$ 502
Accruals, reserves, and other expenses	**2,874**	2,960
Loss and credit carryforwards	**1,546**	1,090
Amortization	**10,656**	6,346
Leasing liabilities	**4,557**	4,060
Unearned revenue	**2,876**	2,659
Other	**461**	319
Deferred income tax assets	**23,571**	17,936
Less valuation allowance	**(1,012)**	(769)
Deferred income tax assets, net of valuation allowance	**$ 22,559**	$ 17,167
Deferred Income Tax Liabilities		
Book/tax basis differences in investments and debt	**$ (174)**	$ (2,381)
Leasing assets	**(4,291)**	(3,834)
Depreciation	**(1,602)**	(1,010)
Deferred tax on foreign earnings	**(3,104)**	(2,815)
Other	**(103)**	(144)
Deferred income tax liabilities	**$ (9,274)**	$ (10,184)
Net deferred income tax assets	**$ 13,285**	$ 6,983
Reported As		
Other long-term assets	**$ 13,515**	$ 7,181
Long-term deferred income tax liabilities	**(230)**	(198)
Net deferred income tax assets	**$ 13,285**	$ 6,983

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when the taxes are paid or recovered.

As of June 30, 2022, we had federal, state, and foreign net operating loss carryforwards of $318 million, $1.3 billion, and $2.1 billion, respectively. The federal and state net operating loss carryforwards will expire in various years from fiscal 2023 through 2042, if not utilized. The majority of our foreign net operating loss carryforwards do not expire. Certain acquired net operating loss carryforwards are subject to an annual limitation but are expected to be realized with the exception of those which have a valuation allowance. As of June 30, 2022, we had $1.3 billion federal capital loss carryforwards for U.S. tax purposes from our acquisition of Nuance. The federal capital loss carryforwards are subject to an annual limitation and will expire in various years from fiscal 2023 through 2025.

The valuation allowance disclosed in the table above relates to the foreign net operating loss carryforwards, federal capital loss carryforwards, and other net deferred tax assets that may not be realized.

Income taxes paid, net of refunds, were $16.0 billion, $13.4 billion, and $12.5 billion in fiscal years 2022, 2021, and 2020, respectively.

Uncertain Tax Positions

Gross unrecognized tax benefits related to uncertain tax positions as of June 30, 2022, 2021, and 2020, were $15.6 billion, $14.6 billion, and $13.8 billion, respectively, which were primarily included in long-term income taxes in our consolidated balance sheets. If recognized, the resulting tax benefit would affect our effective tax rates for fiscal years 2022, 2021, and 2020 by $13.3 billion, $12.5 billion, and $12.1 billion, respectively.

As of June 30, 2022, 2021, and 2020, we had accrued interest expense related to uncertain tax positions of $4.3 billion, $4.3 billion, and $4.0 billion, respectively, net of income tax benefits. The provision for income taxes for fiscal years 2022, 2021, and 2020 included interest expense related to uncertain tax positions of $36 million, $274 million, and $579 million, respectively, net of income tax benefits.

The aggregate changes in the gross unrecognized tax benefits related to uncertain tax positions were as follows:

(In millions)

Year Ended June 30,	**2022**	**2021**	**2020**
Beginning unrecognized tax benefits	**$ 14,550**	$ 13,792	$ 13,146
Decreases related to settlements	**(317)**	(195)	(31)
Increases for tax positions related to the current year	**1,145**	790	647
Increases for tax positions related to prior years	**461**	461	366
Decreases for tax positions related to prior years	**(246)**	(297)	(331)
Decreases due to lapsed statutes of limitations	**0**	(1)	(5)
Ending unrecognized tax benefits	**$ 15,593**	$ 14,550	$ 13,792

We settled a portion of the Internal Revenue Service ("IRS") audit for tax years 2004 to 2006 in fiscal year 2011. In February 2012, the IRS withdrew its 2011 Revenue Agents Report related to unresolved issues for tax years 2004 to 2006 and reopened the audit phase of the examination. We also settled a portion of the IRS audit for tax years 2007 to 2009 in fiscal year 2016, and a portion of the IRS audit for tax years 2010 to 2013 in fiscal year 2018. In the second quarter of fiscal year 2021, we settled an additional portion of the IRS audits for tax years 2004 to 2013 and made a payment of $1.7 billion, including tax and interest. We remain under audit for tax years 2004 to 2017.

As of June 30, 2022, the primary unresolved issues for the IRS audits relate to transfer pricing, which could have a material impact in our consolidated financial statements when the matters are resolved. We believe our allowances for income tax contingencies are adequate. We have not received a proposed assessment for the unresolved key transfer pricing issues and 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 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 2021, 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.

NOTE 13 — UNEARNED REVENUE

Unearned revenue by segment was as follows:

(In millions)		
June 30,	**2022**	**2021**
Productivity and Business Processes	**$ 24,558**	$ 22,120
Intelligent Cloud	**19,371**	17,710
More Personal Computing	**4,479**	4,311
Total	**$ 48,408**	$ 44,141

Changes in unearned revenue were as follows:

(In millions)	
Year Ended June 30, 2022	
Balance, beginning of period	**$ 44,141**
Deferral of revenue	**110,455**
Recognition of unearned revenue	**(106,188)**
Balance, end of period	**$ 48,408**

Revenue allocated to remaining performance obligations, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods, was $193 billion as of June 30, 2022, of which $189 billion is related to the commercial portion of revenue. We expect to recognize approximately 45% of this revenue over the next 12 months and the remainder thereafter.

NOTE 14 — LEASES

We have operating and finance leases for datacenters, corporate offices, research and development facilities, Microsoft Experience Centers, and certain equipment. Our leases have remaining lease terms of 1 year to 19 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

The components of lease expense were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Operating lease cost	**$ 2,461**	$ 2,127	$ 2,043
Finance lease cost:			
Amortization of right-of-use assets	**$ 980**	$ 921	$ 611
Interest on lease liabilities	**429**	386	336
Total finance lease cost	**$ 1,409**	$ 1,307	$ 947

Supplemental cash flow information related to leases was as follows:

(In millions)

Year Ended June 30,	**2022**	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	**$ 2,368**	$ 2,052	$ 1,829
Operating cash flows from finance leases	**429**	386	336
Financing cash flows from finance leases	**896**	648	409
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	**5,268**	4,380	3,677
Finance leases	**4,234**	3,290	3,467

Supplemental balance sheet information related to leases was as follows:

(In millions, except lease term and discount rate)

June 30,	**2022**	**2021**
Operating Leases		
Operating lease right-of-use assets	**$ 13,148**	$ 11,088
Other current liabilities	**$ 2,228**	$ 1,962
Operating lease liabilities	**11,489**	9,629
Total operating lease liabilities	**$ 13,717**	$ 11,591
Finance Leases		
Property and equipment, at cost	**$ 17,388**	$ 14,107
Accumulated depreciation	**(3,285)**	(2,306)
Property and equipment, net	**$ 14,103**	$ 11,801
Other current liabilities	**$ 1,060**	$ 791
Other long-term liabilities	**13,842**	11,750
Total finance lease liabilities	**$ 14,902**	$ 12,541
Weighted Average Remaining Lease Term		
Operating leases	**8 years**	8 years
Finance leases	**12 years**	12 years
Weighted Average Discount Rate		
Operating leases	**2.1%**	2.2%
Finance leases	**3.1%**	3.4%

The following table outlines maturities of our lease liabilities as of June 30, 2022:

(In millions)

Year Ending June 30,	**Operating Leases**	**Finance Leases**
2023	**$ 2,456**	**$ 1,477**
2024	**2,278**	**1,487**
2025	**1,985**	**1,801**
2026	**1,625**	**1,483**
2027	**1,328**	**1,489**
Thereafter	**5,332**	**9,931**
Total lease payments	**15,004**	**17,668**
Less imputed interest	**(1,287)**	**(2,766)**
Total	**$ 13,717**	**$ 14,902**

As of June 30, 2022, we have additional operating and finance leases, primarily for datacenters, that have not yet commenced of $7.2 billion and $8.8 billion, respectively. These operating and finance leases will commence between fiscal year 2023 and fiscal year 2028 with lease terms of 1 year to 18 years.

NOTE 15 — CONTINGENCIES

Antitrust Litigation and Claims

China State Administration for Market Regulation Investigation

In 2014, Microsoft was informed that China's State Agency for Market Regulation ("SAMR") (formerly State Administration for Industry and Commerce) had begun a formal investigation relating to China's Anti-Monopoly Law, and the SAMR conducted onsite inspections of Microsoft offices in Beijing, Shanghai, Guangzhou, and Chengdu. In 2019, the SAMR presented preliminary views as to certain possible violations of China's Anti-Monopoly Law.

Product-Related Litigation

U.S. Cell Phone Litigation

Microsoft Mobile Oy, a subsidiary of Microsoft, along with other handset manufacturers and network operators, is a defendant in 46 lawsuits, including 45 lawsuits filed in the Superior Court for the District of Columbia by individual plaintiffs who allege that radio emissions from cellular handsets caused their brain tumors and other adverse health effects. We assumed responsibility for these claims in our agreement to acquire Nokia's Devices and Services business and have been substituted for the Nokia defendants. Nine of these cases were filed in 2002 and are consolidated for certain pre-trial proceedings; the remaining cases are stayed. In a separate 2009 decision, the Court of Appeals for the District of Columbia held that adverse health effect claims arising from the use of cellular handsets that operate within the U.S. Federal Communications Commission radio frequency emission guidelines ("FCC Guidelines") are pre-empted by federal law. The plaintiffs allege that their handsets either operated outside the FCC Guidelines or were manufactured before the FCC Guidelines went into effect. The lawsuits also allege an industry-wide conspiracy to manipulate the science and testing around emission guidelines.

In 2013, the defendants in the consolidated cases moved to exclude the plaintiffs' expert evidence of general causation on the basis of flawed scientific methodologies. In 2014, the trial court granted in part and denied in part the defendants' motion to exclude the plaintiffs' general causation experts. The defendants filed an interlocutory appeal to the District of Columbia Court of Appeals challenging the standard for evaluating expert scientific evidence. In October 2016, the Court of Appeals issued its decision adopting the standard advocated by the defendants and remanding the cases to the trial court for further proceedings under that standard. The plaintiffs have filed supplemental expert evidence, portions of which the defendants have moved to strike. In August 2018, the trial court issued an order striking portions of the plaintiffs' expert reports. A hearing on general causation is scheduled for September of 2022.

Other Contingencies

We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact in our consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

As of June 30, 2022, we accrued aggregate legal liabilities of $364 million. While we intend to defend these matters vigorously, adverse outcomes that we estimate could reach approximately $600 million in aggregate beyond recorded amounts are reasonably possible. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact in our consolidated financial statements for the period in which the effects become reasonably estimable.

NOTE 16 — STOCKHOLDERS' EQUITY

Shares Outstanding

Shares of common stock outstanding were as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Balance, beginning of year	**7,519**	7,571	7,643
Issued	**40**	49	54
Repurchased	**(95)**	(101)	(126)
Balance, end of year	**7,464**	7,519	7,571

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.

Dividends

Our Board of Directors declared the following dividends:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
Fiscal Year 2022				**(In millions)**
September 14, 2021	**November 18, 2021**	**December 9, 2021**	**$ 0.62**	**$ 4,652**
December 7, 2021	**February 17, 2022**	**March 10, 2022**	**0.62**	**4,645**
March 14, 2022	**May 19, 2022**	**June 9, 2022**	**0.62**	**4,632**
June 14, 2022	**August 18, 2022**	**September 8, 2022**	**0.62**	**4,627**
Total			**$ 2.48**	**$ 18,556**
Fiscal Year 2021				
September 15, 2020	November 19, 2020	December 10, 2020	$ 0.56	$ 4,230
December 2, 2020	February 18, 2021	March 11, 2021	0.56	4,221
March 16, 2021	May 20, 2021	June 10, 2021	0.56	4,214
June 16, 2021	August 19, 2021	September 9, 2021	0.56	4,206
Total			$ 2.24	$ 16,871

The dividend declared on June 14, 2022 was included in other current liabilities as of June 30, 2022.

NOTE 17 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Derivatives			
Balance, beginning of period	**$ (19)**	$ (38)	$ 0
Unrealized gains (losses), net of tax of **$(15)**, $9, and $(10)	**(57)**	34	(38)
Reclassification adjustments for (gains) losses included in other income (expense), net	**79**	(17)	0
Tax expense (benefit) included in provision for income taxes	**(16)**	2	0
Amounts reclassified from accumulated other comprehensive income (loss)	**63**	(15)	0
Net change related to derivatives, net of tax of **$1**, $7, and $(10)	**6**	19	(38)
Balance, end of period	**$ (13)**	$ (19)	$ (38)
Investments			
Balance, beginning of period	**$ 3,222**	$ 5,478	$ 1,488
Unrealized gains (losses), net of tax of **$(1,440)**, $(589), and $1,057	**(5,405)**	(2,216)	3,987
Reclassification adjustments for (gains) losses included in other income (expense), net	**57**	(63)	4
Tax expense (benefit) included in provision for income taxes	**(12)**	13	(1)
Amounts reclassified from accumulated other comprehensive income (loss)	**45**	(50)	3
Net change related to investments, net of tax of **$(1,428)**, $(602), and $1,058	**(5,360)**	(2,266)	3,990
Cumulative effect of accounting changes	**0**	10	0
Balance, end of period	**$ (2,138)**	$ 3,222	$ 5,478

(In millions)			
Year Ended June 30,	2022	2021	2020
Translation Adjustments and Other			
Balance, beginning of period	**$ (1,381)**	$(2,254)	$(1,828)
Translation adjustments and other, net of tax of **$0**, $(9), and $1	**(1,146)**	873	(426)
Balance, end of period	**$ (2,527)**	$(1,381)	$(2,254)
Accumulated other comprehensive income (loss), end of period	**$ (4,678)**	$ 1,822	$ 3,186

NOTE 18 — EMPLOYEE STOCK AND SAVINGS PLANS

We grant stock-based compensation to employees and directors. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plans. We issue new shares of Microsoft common stock to satisfy vesting of awards granted under our stock plans. We also have an ESPP for all eligible employees.

Stock-based compensation expense and related income tax benefits were as follows:

(In millions)			
Year Ended June 30,	2022	2021	2020
Stock-based compensation expense	**$7,502**	$ 6,118	$ 5,289
Income tax benefits related to stock-based compensation	**1,293**	1,065	938

Stock Plans

Stock awards entitle the holder to receive shares of Microsoft common stock as the award vests. Stock awards generally vest over a service period of four years or five years.

Executive Incentive Plan

Under the Executive Incentive Plan, the Compensation Committee approves stock awards to executive officers and certain senior executives. RSUs generally vest ratably over a service period of four years. PSUs generally vest over a performance period of three years. The number of shares the PSU holder receives is based on the extent to which the corresponding performance goals have been achieved.

Activity for All Stock Plans

The fair value of stock awards was estimated on the date of grant using the following assumptions:

Year ended June 30,	2022	2021	2020
Dividends per share (quarterly amounts)	**$ 0.56 – 0.62**	$ 0.51 – 0.56	$ 0.46 – 0.51
Interest rates	**0.03% – 3.6%**	0.01% – 1.5%	0.1% – 2.2%

During fiscal year 2022, the following activity occurred under our stock plans:

	Shares	Weighted Average Grant-Date Fair Value
	(In millions)	
Stock Awards		
Nonvested balance, beginning of year	**100**	**$152.51**
Granted (a)	**50**	**291.22**
Vested	**(47)**	**143.10**
Forfeited	**(10)**	**189.88**
Nonvested balance, end of year	**93**	**$227.59**

(a) *Includes 1 million, 2 million, and 2 million of PSUs granted at target and performance adjustments above target levels for fiscal years 2022, 2021, and 2020, respectively.*

As of June 30, 2022, there was approximately $16.7 billion of total unrecognized compensation costs related to stock awards. These costs are expected to be recognized over a weighted average period of three years. The weighted average grant-date fair value of stock awards granted was $291.22, $221.13, and $140.49 for fiscal years 2022, 2021, and 2020, respectively. The fair value of stock awards vested was $14.1 billion, $13.4 billion, and $10.1 billion, for fiscal years 2022, 2021, and 2020, respectively. As of June 30, 2022, an aggregate of 211 million shares were authorized for future grant under our stock plans.

Employee Stock Purchase Plan

We have an ESPP for all eligible employees. Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value on the last trading day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. Under the terms of the ESPP that were approved in 2012, the plan was set to terminate on December 31, 2022. At our 2021 Annual Shareholders Meeting, our shareholders approved a successor ESPP with a January 1, 2022 effective date and ten-year expiration of December 31, 2031. No additional shares were requested at this meeting.

Employees purchased the following shares during the periods presented:

(Shares in millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Shares purchased	**7**	8	9
Average price per share	**$ 259.55**	$ 207.88	$ 142.22

As of June 30, 2022, 81 million shares of our common stock were reserved for future issuance through the ESPP.

Savings Plans

We have savings plans in the U.S. that qualify under Section 401(k) of the Internal Revenue Code, and a number of savings plans in international locations. Eligible U.S. employees may contribute a portion of their salary into the savings plans, subject to certain limitations. We match a portion of each dollar a participant contributes into the plans. Employer-funded retirement benefits for all plans were $1.4 billion, $1.2 billion, and $1.0 billion in fiscal years 2022, 2021, and 2020, respectively, and were expensed as contributed.

NOTE 19 — SEGMENT INFORMATION AND GEOGRAPHIC DATA

In its operation of the business, management, including our chief operating decision maker, who is also our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis not consistent with GAAP. During the periods presented, we reported our financial performance based on the following segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing.

Our reportable segments are described below.

Productivity and Business Processes

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

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

Intelligent Cloud

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

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

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 and PC accessories.
- Gaming, including Xbox hardware and Xbox content and services, comprising first- and third-party content (including games and in-game content), Xbox Game Pass and other subscriptions, Xbox Cloud Gaming, third-party disc royalties, advertising, and other cloud services.
- Search and news advertising.

Revenue and costs are generally directly attributed to our segments. However, due to the integrated structure of our business, certain revenue recognized and costs incurred by one segment may benefit other segments. Revenue from certain contracts is allocated among the segments based on the relative value of the underlying products and services, which can include allocation based on actual prices charged, prices when sold separately, or estimated costs plus a profit margin. Cost of revenue is allocated in certain cases based on a relative revenue methodology. Operating expenses that are allocated primarily include those relating to marketing of products and services from which multiple segments benefit and are generally allocated based on relative gross margin.

In addition, certain costs incurred at a corporate level that are identifiable and that benefit our segments are allocated to them. These allocated costs include legal, including settlements and fines, information technology, human resources, finance, excise taxes, field selling, shared facilities services, and customer service and support. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated.

Segment revenue and operating income were as follows during the periods presented:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Revenue			
Productivity and Business Processes	**$ 63,364**	$ 53,915	$ 46,398
Intelligent Cloud	**75,251**	60,080	48,366
More Personal Computing	**59,655**	54,093	48,251
Total	**$ 198,270**	$ 168,088	$ 143,015
Operating Income			
Productivity and Business Processes	**$ 29,687**	$ 24,351	$ 18,724
Intelligent Cloud	**32,721**	26,126	18,324
More Personal Computing	**20,975**	19,439	15,911
Total	**$ 83,383**	$ 69,916	$ 52,959

No sales to an individual customer or country other than the United States accounted for more than 10% of revenue for fiscal years 2022, 2021, or 2020. Revenue, classified by the major geographic areas in which our customers were located, was as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
United States [(a)]	**$100,218**	$ 83,953	$ 73,160
Other countries	**98,052**	84,135	69,855
Total	**$198,270**	$168,088	$ 143,015

(a) *Includes billings to OEMs and certain multinational organizations because of the nature of these businesses and the impracticability of determining the geographic source of the revenue.*

Revenue, classified by significant product and service offerings, was as follows:

(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Server products and cloud services	**$ 67,321**	$ 52,589	$ 41,379
Office products and cloud services	**44,862**	39,872	35,316
Windows	**24,761**	22,488	21,510
Gaming	**16,230**	15,370	11,575
LinkedIn	**13,816**	10,289	8,077
Search and news advertising	**11,591**	9,267	8,524
Enterprise Services	**7,407**	6,943	6,409
Devices	**6,991**	6,791	6,457
Other	**5,291**	4,479	3,768
Total	**$ 198,270**	$ 168,088	$ 143,015

We have recast certain previously reported amounts in the table above to conform to the way we internally manage and monitor our business.

Our Microsoft Cloud (formerly commercial cloud) revenue, which includes Azure and other cloud services, Office 365 Commercial, the commercial portion of LinkedIn, Dynamics 365, and other commercial cloud properties, was $91.2 billion, $69.1 billion and $51.7 billion in fiscal years 2022, 2021, and 2020, respectively. These amounts are primarily included in Server products and cloud services, Office products and cloud services, and LinkedIn in the table above.

Assets are not allocated to segments for internal reporting presentations. A portion of amortization and depreciation is included with various other costs in an overhead allocation to each segment. It is impracticable for us to separately identify the amount of amortization and depreciation by segment that is included in the measure of segment profit or loss.

Long-lived assets, excluding financial instruments and tax assets, classified by the location of the controlling statutory company and with countries over 10% of the total shown separately, were as follows:

(In millions)

June 30,	**2022**	2021	2020
United States	**$ 106,430**	$ 76,153	$ 60,789
Ireland	**15,505**	13,303	12,734
Other countries	**44,433**	38,858	29,770
Total	**$ 166,368**	$ 128,314	$ 103,293

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Microsoft Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2022 and 2021, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity, for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 28, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition – Refer to Note 1 to the financial statements

Critical Audit Matter Description

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company offers customers the ability to acquire multiple licenses of software products and services, including cloud-based services, in its customer agreements through its volume licensing programs.

Significant judgment is exercised by the Company in determining revenue recognition for these customer agreements, and includes the following:

- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together, such as software licenses and related services that are sold with cloud-based services.
- The pattern of delivery (i.e., timing of when revenue is recognized) for each distinct performance obligation.
- Identification and treatment of contract terms that may impact the timing and amount of revenue recognized (e.g., variable consideration, optional purchases, and free services).
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services that are not sold separately.

Given these factors and due to the volume of transactions, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We tested the effectiveness of controls related to the identification of distinct performance obligations, the determination of the timing of revenue recognition, and the estimation of variable consideration.
- We evaluated management's significant accounting policies related to these customer agreements for reasonableness.
- We selected a sample of customer agreements and performed the following procedures:

- Obtained and read contract source documents for each selection, including master agreements, and other documents that were part of the agreement.
- Tested management's identification and treatment of contract terms.
- Assessed the terms in the customer agreement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.

- We evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services that are not sold separately.
- We tested the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the financial statements.

Income Taxes — Uncertain Tax Positions — Refer to Note 12 to the financial statements

Critical Audit Matter Description

The Company's long-term income taxes liability includes uncertain tax positions related to transfer pricing issues that remain unresolved with the Internal Revenue Service ("IRS"). The Company remains under IRS audit, or subject to IRS audit, for tax years subsequent to 2003. While the Company has settled a portion of the IRS audits, resolution of the remaining matters could have a material impact on the Company's financial statements.

Conclusions on recognizing and measuring uncertain tax positions involve significant estimates and management judgment and include complex considerations of the Internal Revenue Code, related regulations, tax case laws, and prior-year audit settlements. Given the complexity and the subjective nature of the transfer pricing issues that remain unresolved with the IRS, evaluating management's estimates relating to their determination of uncertain tax positions required extensive audit effort and a high degree of auditor judgment, including involvement of our tax specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures to evaluate management's estimates of uncertain tax positions related to unresolved transfer pricing issues included the following:

- We evaluated the appropriateness and consistency of management's methods and assumptions used in the identification, recognition, measurement, and disclosure of uncertain tax positions, which included testing the effectiveness of the related internal controls.
- We read and evaluated management's documentation, including relevant accounting policies and information obtained by management from outside tax specialists, that detailed the basis of the uncertain tax positions.
- We tested the reasonableness of management's judgments regarding the future resolution of the uncertain tax positions, including an evaluation of the technical merits of the uncertain tax positions.
- For those uncertain tax positions that had not been effectively settled, we evaluated whether management had appropriately considered new information that could significantly change the recognition, measurement or disclosure of the uncertain tax positions.
- We evaluated the reasonableness of management's estimates by considering how tax law, including statutes, regulations and case law, impacted management's judgments.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington
July 28, 2022

We have served as the Company's auditor since 1983.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our consolidated financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use, or disposition of company assets that could have a material effect on our consolidated financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of June 30, 2022. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Deloitte & Touche LLP has audited our internal control over financial reporting as of June 30, 2022; their report follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Microsoft Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2022, of the Company and our report dated July 28, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington
July 28, 2022

DIRECTORS AND EXECUTIVE OFFICERS OF MICROSOFT CORPORATION

DIRECTORS

Satya Nadella
Chairman and Chief Executive Officer, Microsoft Corporation

Sandra E. Peterson [2,3]
Operating Partner,
Clayton, Dubilier & Rice, LLC

John W. Stanton [1,4]
Founder and Chairman, Trilogy Partnerships

Reid G. Hoffman [4]
General Partner, Greylock Partners

Penny S. Pritzker [4]
Founder and Chairman,
PSP Partners, LLC

John W. Thompson [3,4]
Lead Independent Director,
Microsoft Corporation

Hugh F. Johnston [1]
Vice Chairman and Executive Vice President and Chief Financial Officer, PepsiCo, Inc.

Carlos A. Rodriguez [1]
Chief Executive Officer, ADP, Inc.

Emma N. Walmsley [2,4]
Chief Executive Officer, GSK, plc

Teri L. List [1,3]
Former Executive Vice President and Chief Financial Officer, Gap, Inc.

Charles W. Scharf [2,3]
Chief Executive Officer and President, Wells Fargo & Company

Padmasree Warrior [2]
Founder, President and Chief Executive Officer, Fable Group Inc.

Board Committees
1. Audit Committee
2. Compensation Committee
3. Governance and Nominating Committee
4. Environmental, Social, and Public Policy Committee

EXECUTIVE OFFICERS

Satya Nadella
Chairman and Chief Executive Officer

Amy E. Hood
Executive Vice President and Chief Financial Officer

Judson Althoff
Executive Vice President and Chief Commercial Officer

Bradford L. Smith
Vice Chair and President

Christopher C. Capossela
Executive Vice President, Marketing and Consumer Business, and Chief Marketing Officer

Christopher D. Young
Executive Vice President, Business Development, Strategy, and Ventures

Kathleen T. Hogan
Executive Vice President and Chief Human Resources Officer

INVESTOR RELATIONS

Investor Relations

You can contact Microsoft Investor Relations at any time to order financial documents such as annual reports and Form 10-Ks free of charge.

Call us toll-free at (800) 285-7772 or outside the United States, call (425) 706-4400. We can be contacted between the hours of 9:00 a.m. to 5:00 p.m. Pacific Time to answer investment oriented questions about Microsoft.

For access to additional financial information, visit the Investor Relations website online at:
www.microsoft.com/investor

Our e-mail is msft@microsoft.com

Our mailing address is:
Investor Relations
Microsoft Corporation
One Microsoft Way
Redmond, Washington 98052-6399

Attending the Annual Meeting

The 2022 Annual Shareholders Meeting will be held as a virtual-only meeting. Any shareholder can join the Annual Meeting, while shareholders of record as of October 12, 2022, will be able to vote and submit questions during the meeting.

Date: Tuesday, December 13, 2022
Time: 8:30 a.m. Pacific Time
Virtual Shareholder Meeting:
www.virtualshareholdermeeting.com/MSFT22

Submit Your Question

We invite you to submit any questions via the proxy voting site at www.proxyvote.com. We will include as many of your questions as possible during the Q&A session of the meeting and will provide answers to questions on the Microsoft Investor Relations website under the Annual Meeting page.

Registered Shareholder Services

Computershare, our transfer agent, can help you with a variety of shareholder related services including:

- Change of address
- Lost stock certificates
- Transfer of stock to another person
- Additional administrative services

Computershare also administers a direct stock purchase plan and a dividend reinvestment program for the company.

Contact Computershare directly to find out more about these services and programs at 800-285-7772, option 1, or visit online at: https://www.computershare.com/Microsoft

You can e-mail the transfer agent at:
web.queries@computershare.com

You can also send mail to the transfer agent at:
Computershare
P.O. Box 43006
Providence RI 02940-3078

Shareholders can sign up for electronic alerts to access the annual report and proxy statement online. The service gets you the information you need faster and also gives you the power and convenience of online proxy voting. To sign up for this free service, visit the Annual Report site on the Investor Relations website at:
http://www.microsoft.com/investor/AnnualReports/default.aspx

Environmental, Social, and Governance (ESG)/Corporate Social Responsibility

Many of our shareholders are increasingly focused on the importance of the effective engagement and action on environmental, social, and governance topics. To meet the expectations of our stakeholders and to and maintain their trust, we are committed to conducting our business in ways that are principled, transparent, and accountable and we have made a broad range of environmental and social commitments. From our CEO and Senior Leadership Team and throughout our organization, people at Microsoft are working to conduct our business in principled ways that make a significant positive impact on important global issues. Microsoft's Board of Directors provides insight, feedback, and oversight across a broad range of environmental and social matters. In particular, among the responsibilities of the Board's Environmental, Social, and Public Policy Committee is to review and provide guidance to the Board and management about the Company's policies and programs that relate to corporate social responsibility.

For more about Microsoft's CSR commitments and performance, please visit:
www.microsoft.com/transparency.