

Dear shareholders, colleagues, customers, and partners:

Thank you for your continued commitment and investment in Microsoft. Our tremendous progress and impact over the past year would not have been possible without your trust and belief in our mission.

Fiscal 2019 was a record-breaking year for our company. We delivered more than \$125 billion in revenue, \$43 billion in operating income, and more than \$50 billion in operating cash flow — and returned more than \$30 billion to shareholders. Our commercial cloud business is the largest in the world, surpassing \$38 billion in revenue for the year, with gross margin expanding to 63 percent. I am proud of how we are helping organizations of every size in every industry innovate and thrive using our platforms and tools. And I am proud of how we are empowering everyone — consumers, students, teachers, and the more than 2 billion firstline workers around the world — with experiences to help them always feel confident, capable, and in control.

Our mission **to empower every person and every organization on the planet to achieve more** has never been more important. At a time when many are calling attention to the role technology plays in society broadly, our mission remains constant. It grounds us in the enormous opportunity and responsibility we have to ensure that the technology we create always benefits everyone on the planet, including the planet itself. Our platforms and tools help make small businesses more productive, multinationals more competitive, nonprofits more effective, and governments more efficient. They improve healthcare and education outcomes, amplify human ingenuity, and allow people everywhere to reach higher.

Today, every company is a technology company, and every organization will increasingly need to build its own proprietary technology solutions to compete and grow. Organizations that embrace this approach — something I call “tech intensity” — will not only adopt best-in-class software and services but also build their own digital capability.

I believe the next big technology breakthroughs will come not only from technology companies like Microsoft, but from retailers, healthcare providers, and manufacturers, working in partnership with us. Every day, we work alongside our customers and partners to help them build their own digital capability — innovating with them, creating new businesses with them, and earning their trust. We want them to become independent with us, not dependent on us.

Our commitment to our customers’ success is resulting in deeper partnerships, larger, multiyear cloud agreements, and growing momentum across every layer of our differentiated technology stack — from application infrastructure, to data and artificial intelligence (AI), to business process, to productivity and collaboration. One of the great privileges of my job is seeing our customers’ tech intensity in action around the world:

- In rural South Africa, Dr. Raymond Campbell saw an opportunity to bring mobile healthcare to communities where it’s needed most to address pressing and preventable health issues like diabetes, heart disease, and tuberculosis. His company, Phulukisa Health Solutions, is now introducing basic healthcare screening to remote areas with an [Azure-powered backpack](#).
- In Australia, Dr. David Kellerman, a senior lecturer at UNSW Sydney, is [using Microsoft 365](#) to bring together all his students — those in his classroom and those watching online — so they can

learn together no matter where they are. Students report that they are happier and more engaged and say they feel as though they are part of a single learning community.

- In the seaside city of Ise, Japan, a family-owned restaurant [is relying](#) on Azure ML, along with Power BI, to forecast sales so it can better tailor its menu to meet customers' tastes. It was an initiative spearheaded by employee, Akiyoshi Shinobu, who went from waiting tables to teaching herself machine learning to digitally transform the restaurant where she worked.
- In Fjaröal, Iceland, Birna Dögg, along with other firstline workers at the Alcoa smelting plant, are [using Microsoft Teams](#) to create a new culture of work. For the first time, any employee at the plant can schedule shifts on the go and share updates with colleagues, giving every worker a voice.
- In Detroit, Ford Motor Co. is using GitHub as its software development platform to build the cars of the future. More than 8,000 Ford Motor employees use it to innovate at a much faster pace and collaborate with a vast ecosystem of third-party software developers around the world.
- And, in nearly every country, leading companies — from [AT&T](#) and [Daimler](#) to [Walgreens Boots Alliance](#) and [Walmart](#) — are partnering with us to build the technology they need to compete and innovate in a time of unprecedented change.

TECHNOLOGY BREAKTHROUGHS AND PROGRESS

Computing is becoming embedded in the world — in every place and every thing. This era of the intelligent cloud and intelligent edge is shaping the next phase of innovation, powering intelligent systems and experiences that previously would have been unimaginable, and transforming nearly everything around us. Across our businesses, we are innovating to empower our customers, and investing in large and growing markets to help them digitally transform — today and long into the future.

Applications and Infrastructure

In a world where every company is a digital company, developers will play an increasingly vital role in value creation and growth across every industry, and GitHub is their home. Since [our acquisition](#) of GitHub last fall, growth has accelerated. Today it's used by more than 40 million developers, including those who work at the majority of the Fortune 50. Beyond GitHub, we are investing to build the most complete toolchain for developers — independent of language, framework, or cloud. Visual Studio and Visual Studio Code are now the most popular code-editing tools in the world. And TypeScript is one of the fastest-growing programming languages.

We are building Azure as the world's computer, addressing customers' real-world operational sovereignty and regulatory needs. Today, 95 percent of the Fortune 500 trust Azure for their mission-critical workloads. We have more compliance certifications and more datacenter regions than any other cloud provider, and this year, we were the first to open cloud datacenters in the Middle East and in South Africa. We also opened new government regions to meet the public sector's stringent requirements for maintaining the security and integrity of classified workloads. Azure remains the only cloud that extends to the edge, and our new cloud-to-edge services and devices — from Azure Data Box Edge to Azure Stack HCI — bring the full power of Azure to where data is generated.

Data and AI

The variety, velocity, and volume of data is increasing — with 50 billion connected devices coming online by 2030, more than double the number today — and Azure is the only cloud with limitless data and analytics capabilities across our customers' entire data estate. We brought hyperscale capabilities to our relational database services for the first time this year, and we offer the most comprehensive cloud analytics — from Azure Data Factory to Azure SQL Data Warehouse to Power BI.

The quintessential characteristic for every application going forward will be AI, and we believe it cannot be the exclusive province of a few companies or countries. That's why we are democratizing AI infrastructure, tools, and services with Azure Cognitive Services, so any developer can embed the ability to see, hear, respond, translate, reason, and more into their applications. Azure Cognitive Services is the most comprehensive portfolio of AI tools available, and this year, we added new speech-to-text, search, vision, and decision capabilities, as well as updates to Azure Machine Learning to streamline the building, training, and deployment of machine learning models.

Business Applications

Dynamics 365 uniquely enables any organization to create digital feedback loops that take data from one system and use it to optimize the outcomes of another, enabling any business to become AI-first. This year, we introduced Dynamics 365 AI, a new class of AI application built for an era where systems of record and engagement are converted into intelligence. And the [Open Data Initiative](#) we launched with Adobe and SAP last fall takes this even further, delivering on our vision to enable data to be exchanged and enriched across systems to provide unparalleled business insight.

We are enabling our customers to digitize not only their business processes but to bridge the physical and digital worlds with our investments in mixed-reality cloud. The new HoloLens 2 is the most advanced, intelligent edge device available, offering two times the field of view and three times the comfort as the previous version. And, together with Dynamics 365 and new Azure mixed-reality services, it enables organizations to digitize physical spaces and interactions and empower their firstline employees with the right information at the right time, in the context of their work.

Our Power Platform — spanning Power BI, PowerApps, and Flow — enables anyone in an organization to start building an intelligent app or workflow where none exists. It brings together low-code, no-code app development, robotic process automation, and self-service analytics into a single, comprehensive platform. This year, we introduced new capabilities to make it much easier and faster for anyone to build higher-quality PowerApps. And, with Power BI, we are the recognized leader in business intelligence in the cloud, with more than 25 million models hosted on the service and 12 million queries processed each hour.

LinkedIn now has more than 645 million members and is the most comprehensive solution for every organization to manage and engage their most important resource — their talent. Our Talent portfolio — from Talent Solutions and Talent Insights, to employee engagement with Glint and LinkedIn Learning — enables every organization to attract, retain, and develop the best talent in an increasingly competitive jobs market. And we are innovating with new experiences for customers that leverage the LinkedIn and Microsoft Graphs, introducing new integrations with Dynamics 365 and Microsoft 365.

Modern Workplace

Microsoft 365 empowers everyone — enterprises, small businesses, and firstline workers — with an integrated, secure experience that transcends any one device. We are helping every business build out their system of communication and collaboration to drive their productivity as well as their business transformation. We are infusing AI across Microsoft 365 to enable new automation, prediction, translation, and insights capabilities. Meetings are more inclusive in Microsoft Teams, presentations more accessible in PowerPoint, videos more searchable in Stream, and emails more relevant in Outlook. And with Workplace Analytics and Microsoft Search, we distill knowledge and insights from data to help people work smarter, not longer. Office 365 Commercial has 180 million users. Our EMS install base exceeded 100 million. And the Outlook apps on iOS and Android also surpassed more than 100 million users for the first time.

Microsoft Teams had a breakout year with more than 13 million daily active users and 19 million weekly active users. It brings together everything a team needs into a single, integrated user experience. And we are broadening our opportunity, bringing Teams for the first time to new and underpenetrated markets including healthcare, hospitality, and retail, as well as firstline workers. Windows 10 is active on more than 900 million devices, with accelerating adoption across both enterprise and consumer as the most secure and productive operating system. And, we expanded our family of Surface devices this year — including the new Surface Go and Surface Hub 2S. And, just this month, we unveiled the new Surface Duo and Surface Neo to inspire new categories focused on productivity and creativity.

Gaming

In gaming, we are pursuing our expansive opportunity to transform how games are distributed, played, and viewed. Our new breakthrough game streaming technology, Project xCloud, will enter public trials this fall. It will put gamers at the center of their gaming experience, enabling them to play games in high-fidelity wherever and whenever they want, on any device.

Microsoft Game Stack brings together our tools and services to empower game developers — from independent creators to the biggest game studios — to build, operate, and scale cloud-first games across mobile, PC, and console. Our growing Xbox Live community is key to our approach, and for the first time we are enabling developers to reach these highly engaged gamers on iOS and Android. Finally, we increased our first-party game studios to 15 this year to deliver differentiated content for our fast-growing subscription services like Xbox Game Pass, which is now available on both console and PC.

TRUST

Along with this expanding opportunity comes great responsibility. At its core, responsibility is about earning and sustaining the trust of the customers and partners we empower and the communities in which we live and work. Without trust, none of our progress is possible.

Trust begins with our commitment to shared success and prosperity. Our customers want a partner whose business model is fundamentally aligned to their success. No customer wants to be dependent on a provider that sells them technology on one end and competes with them on the other.

This focus on trust extends to ensuring that those who use our products and services have confidence in the underlying technology itself. There are three pillars to our approach: privacy, cybersecurity, and

responsible AI. Across each, our commitment goes beyond words to real actions, providing tools and frameworks for our customers and working collaboratively with the public sector to drive policy change.

The first pillar is privacy. We believe privacy is a fundamental human right. Our approach to privacy and data protection is grounded in our belief that customers own their own data and ensuring any product or service we provide is built with privacy by design from the ground up. We've defined clear privacy principles that include a commitment to be transparent in our privacy practices, to offer meaningful privacy choices, and to always responsibly manage the data we store and process. It's why we were early supporters of the European Union's General Data Protection Regulation (GDPR), and why we were the first company to expand GDPR's core rights to all our customers around the world. To date, some 26 million people have used these tools, including 10 million Americans. And it's why we continue to advocate for new privacy laws to ensure customers enjoy the transparency and control they rightfully deserve.

The second pillar is cybersecurity — a central challenge for every customer. We are investing to protect customers in today's "zero trust" environment. We analyze more than 6.5 trillion signals each day, and process 450 billion authentications and scan 400 billion emails for malware and phishing each month. This massive signal generates insight that fuels security innovation across Azure, Dynamics 365, Microsoft 365 — all our products and services. We are the only company that offers end-to-end security — spanning identity, device endpoints, information, cloud applications, and infrastructure. It starts with Azure Active Directory and builds with three new services we introduced this year: Microsoft Threat Protection, Azure Sentinel, and Azure Confidential Computing. We are also taking an ecosystem-wide approach, partnering across both the tech sector and the public sector to address new threats in an increasingly complex and heterogeneous world. We have taken the lead in bringing together governments, technology companies, and nongovernmental organizations to work collaboratively to combat emerging cybersecurity threats and promote a safe and secure digital world. We know it's only a start, but we are encouraged by what's been achieved, including partnering with the government of France to mobilize more than 60 countries, 350 companies, and 130 international and nongovernmental organizations to join The Paris Peace Call for Trust and Security in Cyberspace.

And, finally, we build AI responsibly, taking a principled approach and asking difficult questions, like not what computers can do, but what computers should do. We've been inspired by what AI can do in the hands of changemakers who harness it to address society's most pressing challenges. It's why this year we announced two new programs in our [AI for Good initiative](#): AI for Humanitarian Action and AI for Cultural Heritage as well as continuing to expand our efforts in AI for Earth and AI for Accessibility. At the same time, we must also guard against the unintended consequences of AI. We believe there is an important discussion to be convened about how these new technologies should be used. One example of this is our call for more thoughtful government regulation on facial recognition technology, because we believe a technology as powerful as this requires both the public and private sectors to develop norms around acceptable uses.

ENVIRONMENTAL AND CORPORATE SOCIAL RESPONSIBILITY

Beyond these three pillars, we are working to foster a sustainable future where everyone has access to the benefits and opportunities created by technology. As a reflection of the importance we place on advancing environmental and social progress, Microsoft's board of directors has a Regulatory and Public Policy Committee that works together with me, my leadership team, and others across Microsoft to

oversee our commitments to environmental sustainability and corporate social responsibility. No single company is going to solve macro challenges like climate change alone, but as a global technology company, we are well-positioned to enable and accelerate digital transformations that lead to a low-carbon future. That is why we are stepping up our commitment. Over the past year, we expanded our work through our operations, investments, partnerships, and advocacy across initiatives spanning both environmental and social responsibility.

- We continue to operate carbon neutral across our worldwide operations, driven by an internal carbon tax, as we have every year since 2012. And we've taken new steps over the past year to align our carbon-reduction efforts with the latest climate science by setting a goal to reduce our operational emissions by 75 percent by 2030, which puts us on a path to exceed the ambitions of the Paris Accord two decades ahead of schedule. This year, we raised our carbon fee to \$15 per metric ton, a near doubling of the previous fee, to put sustainability at the core of every part of our business. We're also extending our carbon reduction targets beyond our own operations. We will cut carbon emissions by 30 percent across our global supply chain by 2030. And in October, we extended our carbon-neutrality commitment to our products and devices with a pilot to make 825,000 Xbox consoles carbon neutral.
- We are committed to ensuring our datacenters are among the most sustainable in the world. By the end of this year, we will achieve our target of powering our datacenters with 60 percent renewable energy and will aim to reach 70 percent renewable energy within the next four years. In fact, when I was in Sweden this spring, we announced our plans to build some of the most advanced and sustainable datacenters to date, powered from 100 percent renewable energy and with zero-waste operations.
- And, we are also working with our customers and partners to help them use technology to reduce their own environmental footprints and create their own solutions for a more sustainable planet. Our [AI for Earth](#) program, as an example, has expanded access to massive environmental data sets that can help others generate valuable insights about the health of our planet, including the conditions of our air, water, land, and the well-being of our wildlife. And it supports organizations that are applying AI to environmental challenges, by helping them harness the full power of cloud computing.
- We are working with organizations around the world to enable young people — including those who identify as female and under-represented minorities — with the digital skills required for the future. For example, we are the largest funder of Code.org, which teaches coding skills and reaches students in almost every country. And this year marks the 10-year anniversary of our [Technology Education and Literacy in Schools \(TEALS\) Program](#), which helps build and grow sustainable computer science programs by connecting volunteers from Microsoft and other firms with teachers to team teach computer science in hundreds of high schools in the U.S. and British Columbia, Canada.
- We know that there is a broadband gap, and that's why, in the U.S., our Airband program is using a mixed-technology approach, including TV whitespaces, to connect 3 million people living in unserved rural areas to broadband by 2022. And we're working in more than 20 countries, harnessing this same technology to bring broadband to rural communities elsewhere.
- We also know that access to affordable housing is a significant barrier for many, and this year, we launched a major initiative to expand housing options for people who work in the Puget Sound region where we are headquartered. We believe that everyone should be able to choose to live in the community where they work, not just our employees and business partners, but all those who serve the broader community, from teachers and small-business owners, to first responders and medical

practitioners. It's why we are putting \$500 million to work in loans and grants to accelerate the construction of more affordable housing in the region.

- Finally, more broadly, we've expanded our support for the nonprofit sector. We work closely with nonprofit organizations to help them accelerate their organizational transformation with technology, and, in fiscal 2019, Microsoft donated or provided discounted software and services worth more than \$1.5 billion via Microsoft Philanthropies. Our employees generously donated an additional \$170 million (including company match) through our employee giving program to support nonprofits in local communities around the world.

CULTURE

At its core, Microsoft's strength lies in our talented people. It is a privilege to lead Microsoft employees around the world who work every day to earn our customers' trust and help them succeed. We've long recognized the importance of prioritizing the physical, emotional, and financial well-being of our employees and their families, providing industry-leading benefits, including paid vacation and sick leave, as well as paid leaves of absence for a variety of life situations, including welcoming a new child or taking care of a family member with a serious health condition.

We are on a journey to close the gap between our espoused culture and the lived experience for every employee at Microsoft. Each day we practice customer obsession — listening and then innovating to meet customers' unarticulated needs. We operate as One Microsoft to build and deliver the best solutions for customers. And we strive to make our workplace more diverse and inclusive to serve our diverse customers around the world and create a workplace where everyone can do their best work. Since fiscal 2016, we have increased the number of women corporate vice presidents by 152 percent. We've increased the number of African American/Black and Hispanic/Latinx employees in nonretail roles by 54 percent. And this past fiscal year, more than half of our U.S.-based interns were women, African American/Black, or Hispanic/Latinx. Diversity and inclusion continue to be a core priority for every employee and leader at Microsoft as part of our annual performance and development approach. And this past year we strengthened the connection between our growth mindset culture and our approach to diversity and inclusion by introducing a science-based, global allyship program.

At the board level, the slate of directors nominated for election at the 2019 annual shareholders meeting includes five women (accounting for 38 percent of our directors) and two of our four board committees will be chaired by women. Overall, more than half of our nominees (54 percent) represent gender or ethnic diversity. Representation is only one measure of progress, and we must keep pushing to do more, but I'm encouraged by our progress. Culture transformation is a continuous process of learning, renewal, and having the everyday courage to confront our own fixed mindsets, while remaining true to our enduring values of respect, integrity, and accountability.

In closing, at our partner conference this year, I talked about how our more than 140,000 employees, combined with our 17 million partners and our 75 million customers, have a collective opportunity to improve the lives of the 7 billion people on the planet through the power of technology. Everything we do is driven by this deep sense of purpose. We will continue to work alongside our customers to help them build their own digital capability and work to earn their trust every day. We will continue to innovate across the cloud and edge to help our customers thrive — today and long into the future. And we will continue to invest in large and growing markets to expand our opportunity.

As I reflect on this fiscal year, I'm proud of our progress and impact. And I'm even more optimistic about the opportunity ahead.

A handwritten signature in black ink, appearing to read "Satya N.", with a stylized, cursive script.

Satya Nadella
Chief Executive Officer
October 16, 2019