

# Annual General Meeting

## Company Participants

- Amy Hood, Executive Vice President and Chief Financial Officer
- Bradford Lee Smith, Vice Chairman and President
- Brett Iverson, Head of Investor Relations
- Charles Baruk, Representative
- Hussein Salama, Director of Microsoft Research Advanced Technology
- Lauren Compere, Head of stewardship and engagement
- Maren Costa, Principal Design Lead
- Satya Nadella, Chairman and Chief Executive Officer
- Tenzing Tashishar, Research and Activism Team
- Unidentified Speaker, Unknown
- William Flaig, Founder and Chief Executive Officer

## Presentation

### Hussein Salama

The other of the proxy materials were mailed by Broadbridge, beginning October 27 2022, and went to all shareholders of record as of October 12, 2022. As a result, the meeting is being held pursuant to proper notice. Based on the shareholders proxies received Broadbridge reports that a quorum of shareholders is present to conduct this meeting.

Today, we have three management proposals and six shareholder proposals for you to consider. They're all described in the proxy statement for this year's meeting. The first item is the election of directors. The following 12 individuals have been properly nominated by the board: Reid Hoffman, Hugh Johnston, Teri List, Satya Nadella, Sandra Peterson, Penny Pritzker, Carlos Rodriguez, Charles Scharf, John Stanton, John W. Thompson, Emma Walmsley, and Padmasree Warrior.

The board recommends that those (inaudible) for each nominee. Our board nominees are attending today's meeting via Microsoft Teams. The second item is an advisory vote to approve executive compensation as disclosed in the company's proxy statement. The board recommends a vote for this proposal.

For the third item we ask that you ratify the selection of the company's independent auditor, Deloitte and Touche for fiscal year 2023. The board recommends a vote for this proposal. The next six items are shareholder proposals. These are set forth in the proxy statement along with the proponents supporting statements and Microsoft's opposition statements. First is a shareholder proposal submitted by Ridgeline

Research requesting Microsoft provide a cost benefit analysis of diversity and inclusion. Please play the video introducing the proposal.

### **William Flaig** {BIO 2113489 <GO>}

Good morning shareholders and board members. My name is William Flaig founder and CEO of Ridgeline Research. The investment advisor to the American conservative values ETF. On behalf of the shareholders, I move for shareholder proposal number one, requesting that Microsoft issue a public report detailing a cost benefit analysis of the global diversity and inclusion efforts. A summary of the results should subsequently be included in the next annual update of Microsoft's Global Diversity and Inclusion report.

This is a pro shareholder proposal. We view all corporations as being organized to provide the best quality goods and services to their customers, while maximizing return to the investors who fund the company. And shareholders, we feel Microsoft's current global diversity inclusion report lacks a quantified net benefit to shareholders and is thus incomplete.

Shareholders recommend that the report evaluate any risks, benefits and costs associated with Microsoft's global diversity inclusion program presented in an objective quantifiable manner which will allow a quantitative cost benefit analysis. We feel management's statement and opposition misses the point. Their position that justification undercuts what they know to be true belittles our legitimate right as shareholders to question their truth. We have no insight into the results of the request or report. Our request gives Microsoft the freedom to take initiative setting the terms and framework of the calculation.

Management also hasn't raised any objections to the practicality of calculating the cost benefit. This proposal is an opportunity for our company to take a leadership role on the issue of diversity inclusion, going beyond blind faith by demonstrating its value to the bottom line. I encourage all shareholders to vote for shareholder proposal number one, requesting a cost benefit analysis of Microsoft's global diversity and inclusion efforts. Thank you.

### **Hussein Salama**

Our leadership and board believes diversity and inclusion is fundamental to Microsoft's long-term success. We provide more information on our diversity and inclusion programs and policies in our annual Global Diversity and Inclusion report. To single out diversity and inclusion initiatives as requiring a public justification of costs and benefits would undercut the importance of these initiatives to Microsoft and our shareholders, particularly when we believe this request is motivated by skepticism of those benefits. As a result, the board recommends a vote against this proposal.

Next is a shareholder proposal submitted by Northstar Asset Management requesting that Microsoft report on our hiring of those with arrest and incarceration

records. Please play the video introducing the proposal.

## **Tenzing Tashishar** {BIO 22858310 <GO>}

Good morning. My name is Tenzing Tashishar, of Northstar asset management, a socially responsible investment firm, and shareholder of Microsoft common stock. Today, I am presenting shareholder resolution number two, proxy item number five. Microsoft made a commitment to fair chance employment practices when management signed the fair chance business pledge in 2015, and joined the Second Chance business coalition. Although we commend these actions, the company's hiring process falls short of exhibiting best practices in hiring from this pool of talent.

Fair Chance employers are not blind to criminal records. Hiring Managers still perform background checks and consider suitability. Given the disproportionately high incarceration rates of black and brown people in the US, the company is ignoring an opportunity to combine our commitment to the Fair Chance pledge, and our publicly stated commitment to diversity, equity and inclusion. According to the NAACP, white men with a criminal record are more likely to get an interview than black men with no criminal record. And studies have shown that black American men with criminal records experience a 65% reduction in Job callbacks.

Getting a job once you have a criminal record is compounded by racial discrimination. Our proposal is about fair chance employment, the recruitment of people with criminal records that may help solve critical labor shortages, and improve the US economy long term. However, any consideration of policies related to the US criminal justice system needs to be analyzed with an eye towards rounding out racial inequity. While Microsoft management has made commitments to advance fair chance hiring practices and a diverse workforce, insufficient tracking, analysis, and concrete measures of success towards accomplishing these dual, yet intersectional goals may lead to failure, and worse, to costly accusations of discrimination.

Let's make sure we are successful in our commitments. We believe it's clear that offering a fair chance of employment to people with arrest or incarceration records must be developed in tandem with an examination of racial equity. Otherwise, it's entirely possible that company practices may be unknowingly perpetuating racial inequity. We know that's not what Microsoft wants. While we appreciate the steps the companies taking on this issue, we urge Microsoft to take the next steps towards best practices in Fair Chance employment. Shareholders, we urge you to vote for shareholder proposal number two, item number five on proxy. Thank you.

## **Hussein Salama**

Microsoft has a demonstrated history of providing an inclusive workplace free of unnecessary barriers to those with criminal records. This includes data we have previously publicly reported that for the last two years and overwhelming 98% of the time, we proceeded with a higher offer after a candidate was flagged with a criminal background during the hiring process. We're also investing in new partnerships to

provide training and employment opportunities to people with criminal records. For these reasons which we detail in the proxy.

The board recommends a vote against the proposal. As you saw and its co-filers submitted the next shareholder proposal, requesting a report on investment of retirement funds and companies contributing to climate change. Please play the video introducing the proposal.

## **Maren Costa**

Hello, I'm Maren Costa. I'm a Microsoft employee. And today I'm representing as you saw, on proposal number three on the proxy statement. This proposal asks Microsoft to report on how the company is managing the growing systemic risks created by investing retirement plan funds in companies that contribute significantly to climate change. Recognizing the growing risks of climate change to the company's bottom line, Microsoft has adopted ambitious operational climate goals, including a commitment to become carbon negative by 2030, as well as a goal to reach 100% renewable energy by 2025.

Microsoft has also backed up its climate goals with action, like creating a \$1 billion climate Innovation Fund. Yet, the company is investing over \$2 billion of our employee 401k savings into oil, oil fired utilities and agribusinesses involved in deforestation. This creates cognitive dissonance that undermines our favorable reputation as the industry leader on climate, as well as financial risk for the company and long-term risk for employees retirement savings.

As climate change drives the world to rapidly transition away from an extractive economy, investments in fossil fuels will experience unpredictable diminishing returns. A report from the carbon disclosure project indicates that 215 of the largest global companies report almost \$1 trillion at risk from climate impacts. With many of those losses projected to happen within the next five years. Climate Safe Investing reduces climate risk, reduces financial risk and generates strong returns.

Key findings from a recent Morgan Stanley study of nearly 11,000 mutual funds demonstrate that there's no financial trade off in the returns of sustainable funds and traditional funds. Furthermore, what this study doesn't measure is the future benefits of climate safe investments to our employees to the economy and to our future businesses. Employees investments and 401k plans generally represent a significant portion of their life savings. Microsoft has a duty to address the growing risks that climate change poses to pension fund assets now and in the future.

Our savings are exposed to this climate related financial risk, and currently, Microsoft does not offer any climate safe investment options inside of our retirement plan. While we do have access to a brokerage window that allows employees to go outside of the plan to find sustainable funds on the open market, this option is not easy to use for the average investor. And more importantly, it outsources investment risk to the employees.

Given the threat that climate change poses to employees' life savings, Microsoft should demonstrate that it is safeguarding employee financial security over time, by mitigating climate change related financial and economic risks as part of a prudently constructed lineup of easily accessed sustainable options inside of the plan.

I know that Microsoft means well by its employees. Now it's time for Microsoft to step up and actually do well for those employees. By taking climate risk into account in our 401K plan, Microsoft can lead its peers to help build a better future into which employees will retire. This is not a difficult change to implement. It really takes the board and management to agree that offering employees easy access to a climate safe retirement is in everyone's best interest. We urge a yes vote on proposal number three. Thank you for the opportunity to present on this important issue.

## **Hussein Salama**

We appreciate Maren's perspective. Over the past several years, we've addressed feedback from employees and made it much easier for participants in the Microsoft 401 K plan to access hundreds of climate-friendly and ESG investments. To clarify an important point, the 401 K plan is participant-directed, meaning Microsoft does not itself invest participants 401 K funds.

Rather, the plans governing committee follows a set of strict federal requirements and considers a wide range of factors to make sure participants have a menu of prudent and diverse investment options to choose from. And the committee continues to evaluate legal requirements and investment options as they evolve. We will continue engaging with employees like Maren to understand how to serve them best.

Given this and the other points we share in the proxy, the board recommends a vote against the proposal. The next shareholder proposal was submitted by Boston Common Asset Management and impact investors and request an independent report on government use of Microsoft technology, including defense contracts. Please play the video introducing the proposal.

## **Lauren Compere** {BIO 16966372 <GO>}

I'm Lauren Compere head of stewardship and engagement at Boston Common Asset Management. The lead filer of shareholder proposal for defense customer use of Microsoft technology. We're joined by impact investors as a co-filer. Microsoft advances the UN Sustainable Development Goals established principles for responsible use of artificial intelligence AI, and recognizes privacy as a fundamental human right. Microsoft demands the same ethics and its supply chain. Well, Microsoft has established principles for responsible use of AI.

These do not cover all products and services related to military contracts. Boston Common appreciates the long-standing engagement relationship we have with the company on a variety of issues. We support the steps Microsoft recently has taken to commission an independent human rights assessment report. We understand the

report is intended to identify, understand, assess and address actual or potential human rights impacts of Microsoft's products and services and business relationships and rights holders. However, what was not clear at the time we withdrew the 2021 shareholder proposal was that military contractors were not in scope.

Further while there's been some discussion of commissioning a separate assessment, Microsoft has not been willing to commit to a for when this might happen. As long-term investors in Microsoft we have increasing concerns over the human and civil rights implications of the use of some of Microsoft's technology by military and the use of surveillance. We believe that human rights due diligence and impact assessment should be embedded from the product design to the end user application. Not doing so leads to reputation and (inaudible) for Microsoft.

The resolution makes the case that the company's standing as a staff socially responsible corporate stockholding could be jeopardized by the company's lacking a human rights policy covering military contracts. This concern comes after Microsoft recently won a large contract with the US Army for its HoloLens product which just moved from a prototype to a 21 billion integrated visual Augmentation System, IVAS production contract for a military version to enable Enhanced Vision using AI powered technology. The resolution calls for the company's board to commission

An independent report to assess whether governmental customer use of Microsoft's technology including Defense Contract use, does or can contribute to violations of privacy, civil and human rights and conflicts with the policies and principles set forth in Microsoft's public disclosures. We are shareholders in Microsoft to vote in favor of shareholder proposal four Thank you.

## **Hussein Salama**

Microsoft has worked with the US Department of Defense for four decades. As Microsoft bid on some significant new military contracts over the past several years, our senior leadership team deliberated and affirm to the principle that we should not withhold technology from defense institutions that protect the freedoms we enjoy. You can read more about our principles in the proxy.

With this in mind, the board recommends a vote against the proposal. Harrington investments submitted a similar shareholder proposal requesting your report on Microsoft's development of products for the military. Please play the video introducing the proposal.

## **Unidentified Speaker**

An odd to a false technology is this a question to kill or be killed for a true video game that must be the thrill years of war, Call of Duty or Halo Of War for it must be to speak of opening the door to the fun of war and death only for soldiers real is the fantasy of money that makes the deal. Our company preaches shareholders not to withhold tech. But shouldn't it always deal from the top of the deck? It's best to

engage us before the beast is loose. And much before investors next are in the news.

Our employees and poor company to desist from inserting into its DNA the war machine young customers can't resist.

Now our company said goodbye to 100 or more to Meta pleasantly opening its door. Materialistic self-interest that is embedded in our heart, with a fiduciary duty bound in moral law that never got to start. Our company repeat is pledged on personal principled approach in pursuing military contracts of no reproach. as vegans flow to weapons of war. Our company demeans human life from afar. While visions of sugar plums dance in their heads. Little boys now see shadows of creating the dead.

It's all a game for children to play and for soldiers of war who have no say, in the basement of headsets and building 92. Or cameras, sensors, radios and night visions should not rule. It's a hot technology that's heavy, bulky and bright. Perhaps better now to fit into the enemy's deadly sites. The device could have gotten as kill one tester said, as with any technology, there's no failsafe for anyone if did. We ESG investors fear our company has lost its heart to war games that play a major part.

But as important is our company's lack of soul. What is truly needed is a return to a fiduciary mold, which consists of all the company product and service is bound to a higher moral duty that is sound. I have a question for a board of directors. Aren't there always alternative decisions that can be intended and can be morally and legally defended.

That will not result in death and destruction but lead to additional life and positive construction? This last appeal for a sensible solution might actually indeed create a real revolution. Fiduciary Duty is rooted in theological teachings based upon an agent's moral duty to serve others. Please vote yes and proposal five. I move this resolution.

## **Hussein Salama**

As I shared responding to the previous proposed proposal, at Microsoft we have taken a serious and principled approach to our work helping democracies advance their range of government roles including defense. Thus, the board recommends a vote against the proposal. Finally, Academia pension and several co filers submitted a proposal requesting tax transparency reporting. Please play the video introducing the proposal

## **Charles Baruk**

Dear fellow shareholders and members of the Board of Directors. My name is Charles Baruk and today I represent the Danish pension fund academia (Inaudible) and our proposal co-filers PenSam of the asset management, Greater Manchester pension fund No-IP trust. I'm pleased to move shareholder proposals six.

Our proposal calls on Microsoft to align with other leading multinational companies and use the Global Reporting Initiative, GRI tech standard. The GRI is the most widely used sustainability standard worldwide, and is the only comprehensive global tax reporting standard today. The transition to the GRI standard will not require a drastic transformation for our company. Microsoft already submits country by country reporting to OECD tax authorities privately, any burdens to our company should be minimum.

If your rights extender provides transparency of our company's approach to taxes, tax governance controls and risk management, stakeholder engagement related to taxes and perhaps most importantly, public country by country tax reporting. In a world faced by multiple crises, the scrutiny of corporate tax payments is likely to increase year on year. If investors fail to make informed assessments of Microsoft SEC strategy and the company's tax risks, we need accurate, accessible and transparent data on a country-by-country basis.

We have taken note of the opposition statement for management. Indeed, peers do not provide tax transparency at the moment. We think this is likely to change in coming years, however, and that front runner companies stand to benefit from staying ahead of the curve. We encourage the board to demonstrate leadership and embrace tax transparency. And we urge fellow shareholders to consider voting for shareholder proposals six, thank you.

## **Hussein Salama**

Microsoft already provides many tax disclosures in the jurisdictions around the world. We expect to comply with additional reporting requirements from the European Union in the next few years. We're also supporting efforts by the Organization for Economic Cooperation and Development, the OECD to facilitate new tax reform and transparency requirements which are expected to come into force in 2024. We believe it makes sense to begin additional reporting in line with these well-established approaches, rather than making new Voluntary Disclosures right before they come into effect. For these reasons, the board recommends a vote against the proposal.

Now, I'll share with you the preliminary results of voting. First, all 12 Director nominees on the ballot are elected. They serve until the next Annual shareholder meeting and until their successors are elected and qualified. proposal to the advisory vote on executive compensation has been approved. Proposal three ratification of the company's auditor, Deloitte and Touche has been approved. None of the shareholder proposals were approved.

The discussion of the matters for shareholder consideration is now close. And the polls are also now close. We expect to post the details of the final voting results on these matters within four business days on our Investor Relations website, and in a form 8k That will be filed with the Securities and Exchange Commission. With that we've completed the formal portion of the meeting. And the meeting is now



adjourned. Let me now hand it over to our Executive Vice President and Chief Financial Officer, Amy Hood.

**Amy Hood** {BIO 18040963 <GO>}

Thank you, Hussein. Hello, everyone. And thank you for joining us today. As John mentioned, we were able to deliver record financial performance in FY 22. revenue grew 18% to over \$198 billion. Operating income grew 19% and earnings per share grew 20% in a dynamic environment, we were able to deliver strong financial results as we continue to focus on helping our customers address their growing need to do more with less. To further enhance our talent and capabilities in strategic growth areas, we completed 17 acquisitions in FY 22. We welcome Nuance Communications, a trusted cloud and AI software leader to further our ambition in industry cloud solutions. We also completed the acquisition of Xander

A leading advertising technology platform to accelerate delivery of digital advertising and retail Media Solutions. And as we continue to invest in M&A and organic growth in FY 22, we also maintained our commitment to capital return, which included a total cash return of \$46.6 billion, up 17% from last fiscal year. In September, we announced the 10% increase in our quarterly dividend. We completed our prior \$40 billion buyback authorization in November 2021 and are now executing against the current \$60 billion buyback authorization. Now, I'll share just a few highlights from the past fiscal year, our Microsoft cloud business surpass \$91 billion in revenue growing 32% year over year with strong growth across key services.

Azure grew 45% office 365 Great team percent, and dynamics 365 grew 39% We delivered Microsoft Cloud gross margin percentage of 70% through the sustained effort of our engineering, sales and marketing teams.

Even with continued revenue mix shift to Azure. Our server products and cloud services business exceeded \$67 billion, up 28% year over year, with strong customer demand for our trusted differentiated hybrid offerings. From both the technology and licensing perspective, we continue to address our customers need for flexible and high value solutions as they digitally transform and seek to build resilience and be more efficient in this environment. Now, let's turn to progress across Microsoft 365. Our office business again saw double digit revenue growth as we helped even more commercial and consumer users around the world to be more productive, collaborative and secure.

Teams monthly active users exceeded 270 million during the year and our Microsoft 365 consumer subscription base grew to 59.7 million. In Windows, this year, we launched Windows 11. The biggest update to our operating system in a decade. And through the year, we saw higher monthly usage of Windows 11 applications as people continue to rely on the PC for its unique productivity capabilities, interactive experiences and to stay connected. And we drove share gains in our Edge browser.

Through differentiated high value customer experiences, including built in shopping tools, and surface. We continue to innovate across our broad portfolio of devices, including Surface Pro and laptop. In LinkedIn revenue surpassed \$13 billion up 34% year over year, with both LinkedIn talent solutions and LinkedIn marketing solutions, reaching new revenue milestones of \$6 billion and \$5 billion, respectively over the past 12 months. And membership grew to more than 850 million professionals. In gaming revenue exceeded \$16 billion and grew 6% year over year, as we sold more series X and S consoles like to date than any previous Xbox console generation.

Now to our current fiscal year. We had a solid start to fiscal year '23 as first quarter revenue growth of 11% was driven by Microsoft Cloud revenue which was \$25.7 billion growing 24% year over year. These results would not be possible without their tremendous contribution of the more than 220,000 Microsoft employees around the world. Looking forward, we believe that the highest shareholder value is created by investing for the future and creating differentiated high value solutions for every person and organization to achieve more.

We continue to see strong demand for our products and services and increased commitment to our platform, as we remain focused on delivering compelling customer value in this dynamic environment, resulting in continued to share gains. And while we continue to help our customers do more with less, we will do the same internally maintaining intense focus on operational excellence and execution discipline. With that, please join me in welcoming our chairman and chief executive officer Satya Nadella.

### **Satya Nadella** {BIO 3224315 <GO>}

Thank you very much, Amy. And thanks to everyone joining us today for your continued investment in Microsoft. We are living through a period of historic economic, societal and geopolitical change. But 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 than Microsoft to help customers deliver on their digital imperative to do more with less. As Amy mentioned, amid this dynamic environment, we delivered record results in fiscal year '22 having 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, and is taking share from competition.

Looking forward, we remain focused on three priorities. First will invest behind categories that will drive long term secular trend where digital technology as a percentage of the world's GDP will continue to increase.

Second, we will prioritize helping our customers get the most value out of their digital spends so that they can do more with less. And finally, we will be disciplined in managing our cost structure. Now I'll highlight examples of our innovation of the past year. We're building Azure as the world's computer with more data center

regions than any other provider delivering faster access to services while addressing critical data residency requirements. We're not stopping there with Azure arc, we're bringing Azure anywhere enabling customers to run their applications across on premise edge and multi cloud environments.

When it comes to data and AI. Our new Microsoft intelligent data platform provides a complete data fabric from the operational stores to the analytics engine to data governance, so customers can spend more time creating value and less time integrating and managing that data estate. In AI, we are seeing a paradigm shift as the world's large AI models become platforms themselves. We're helping organizations apply these models to a variety of use cases with our Azure Cognitive Services, as well as our new Azure open AI service.

Turning to developers, we have the most popular developer tools for any cloud on any platform to help organizations modernize existing apps and build new ones. This year, we introduced Github co-pilot the first of its kind AI pair programmer, to help developers write better code faster, and organizations are increasingly turning to Visual Studio and our Azure past services to streamline development and create cloud native applications. With power platform, we're also helping domain experts rapidly drive critical productivity gains. (Inaudible) we are innovating to make it even easier for fusion teams of professionals and citizen developers to automate workflows, create applications, build virtual agents and analyze data.

With our portfolio of cloud native business applications, we are helping every organization bring together people data and processes and bridge the digital and physical worlds. Our industry and cross industry clouds bring together capabilities across the tech stack with industry specific customizations to help organizations improve time to value, increased agility and low cost.

We completed our acquisition on Nuance this year, adding new Cloud and Enterprise AI capabilities for healthcare, as well as financial services retail and telecommunications. When it comes to the future of work, every organization is looking to reconnect and re-energize their employees at home in the office and everywhere in between. With Microsoft 365 built an end-to-end suite to bring out the creativity and the ingenuity of every member of the workforce.

Microsoft Teams is the most used and most advanced platform for work surpassing 270 million monthly active users this year. And it's the only solution that brings together meetings, calls, chat, collaboration and business process automation in one scaffolding. And with Microsoft Viva. We're building an employee experience platform to empower employees and strengthen their connection to the company's mission and culture.

Take new Viva goals which helps everyone in an organization build common understanding and alignment by ensuring objectives and key results are shared in the flow of work. 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 in organizations be more productive, connected and secure, and to build a more open ecosystem for developers and creators.

Cybersecurity is a top priority for every business. Our goal is to help every organization strengthen its defense through zero trust architecture, built on end-to-end solutions that span all clouds and all platforms. LinkedIn has become mission critical to connect creators with their communities' job seekers with jobs, learners with skills marketeers with buyers. More broadly when it comes to advertising, we offer a trusted platform for any marketer or advertiser looking to innovate.

We are focused on increasing our share and engagement across our browser, Microsoft Edge, our search engine, Microsoft Bing, and our personalized content feed Microsoft star. And with our acquisition, Xander, we now power one of the largest marketplaces for premium advertising.

In gaming, we offer the best value in the industry. We sold more Xbox series S and series X console life to date than any previous generation of Xbox. And with cloud gaming, we're bringing our games to entirely new endpoints. Xbox game paths now includes access to hundreds of games, including more games from third party publishers than ever before. As our opportunity expands, so does our responsibility to the world around us. To help people and organizations everywhere achieve more, we're focused on four interconnected pillars.

First, we need to ensure the economic growth we drive is inclusive and reaches every person and organization, community and country. Second, we need to protect the fundamental rights of all people from defending democracy, to protecting human rights to addressing racial injustice and inequity. And third, we must protect our most finite resource the planet.

And finally, we must earn trust both trust in business model alignment, and trust in technology spanning privacy, security, digital safety, and responsible use of AI and transparency. Our culture is the foundation on which our mission and strategy stand. We're always working to close the gap between our espoused culture and the lived experience of our employees.

Essential to this is our commitment to continually exercise our growth mindset and confront our fixed mindset. With the recognition that while none of us will ever be perfect, we can always be better than we are today. It sustains our everyday practice of customer obsession. It helps us care for our colleagues and collaborate more effectively across the company as one Microsoft. It deeply informs our long-standing commitment to diversity and inclusion.

In short, the opportunity to apply technology to make a real difference to 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. Thank you all very, very much.

(Foreign Language)

## Unidentified Speaker

In 2015, we did receive nearly 40,000 unaccompanied minors. Many of them contacted us to reconnect to their families, but waiting for an answer takes a long time. Previously, we've been more dependent on collecting data very manually. But now this project has taken a new step, we have initiated a new digital form of self-registration. And from the very first contact, we start to collect data about the missing families. All this information is highly sensitive and confidential. So, the solution built with Alka was based on data privacy by design.

We chose the Microsoft platform because of its scalability and security, and on top of it. So for apps portal for beneficiaries, the mobile's Canvas app for the caseworkers, and all the process is managed with Microsoft 365 into the Swiss Cloud. This solution is really helping to reunify families

(Foreign Language)

## Questions And Answers

### A - Brett Iverson

Hello, and welcome to the Q&A portion of the meeting. I'm Brett Iverson, head of Investor Relations at Microsoft. I'm joined by Satya, Amy and Brad Smith, Microsoft Vice Chair and President. We want to thank you for all the questions you submitted in advance.

We'll try to get to as many as we can. As we reviewed the submissions, there were several questions on similar topics. So, we've selected a representative question from those submitted to answer today. So, let's go ahead and get started.

Satya, in conversations with investors, they asked a lot about the macroeconomic environment, and what Microsoft has seen from our customers. You talk about doing more with less? Can you share what this means for customers? And the challenges and opportunities this presents?

### A - Satya Nadella {BIO 3224315 <GO>}

No, absolutely. Brett, thank you so much for the question. Yes, I mean, this is definitely front and center for all of our customers right now. And it comes in two forms. One is what you said, which is, in an environment of demand, uncertainty and high inflation, how can we do more with less? And also, there is a long range question, which is how can we be more competitive even coming out of this cycle?

How can we drive long term productivity, and I think, in both these contexts, digital technology is the most malleable resource we have to help overcome these constraints. So on the first one, for example, in terms of doing more with less, take

even demand uncertainty, the best way, for any retailer or any packaged goods company or any company for that matter, moving to the cloud is the most capital efficient way to deal with demand uncertainty.

In fact, it's the most energy efficient way at a time when energy prices are going up. So I think up and down the stack, whether it's more workflow automation, or how you manage the cyber risk with the best to suite approach, doing more with less, is I think, one of the most critical things that any customer can be doing to just take their current budgets or even reduced budgets and making sure that those budgets are performing for their company in their competitiveness in the short term.

In the long run. I would also say that, again, digital technology, right? If you think about it, five years from now, will any retailer be competitive if they're not best in class in omni channel, or when any manufacturer who is not using digital twins to optimize energy usage and reduce waste and water be competitive in the manufacturing output?

So, I don't think so. So therefore, again, every company needs to invest both in the ability to overcome the short-term challenge of doing more with less, but come out of the cycle, with long run competitiveness and productivity. And that's where the Microsoft Cloud, we've designed it specifically to be able to address those needs.

## **A - Brett Iverson**

Thanks for taking us off. And that's a good segue to the next question. Amy, investors are also interested now the company balances investments in strategic growth, while managing costs and an uncertain economic environment. Can you share how your approach striking this bounce?

## **A - Amy Hood** {BIO 18040963 <GO>}

This is something we've actually done for over a decade now, and particular, as you think about what makes Microsoft special, we have a diverse business model, diverse end markets and diverse customer segments, both in terms of how big a business is, individuals, right and well around the globe.

And so, we've always had, I think, some pretty good practice, and investing across technology transitions, investing with an understanding of every geography around the world currently is experiencing the recession the same way. Some are really thriving, some have different pressures, some consumers are behaving differently. And so the art form, I think, for the management team, all of us at Microsoft is really about investing in where we're going to create the most strategic value over the long term.

And so, while that can, of course, bring some short term cost pressure, right, because you always want to make sure you're investing both in the right thing. And doing it smartly for the short term and understanding what the current revenue growth is in. And I think we've done a nice job of that making sure we're investing in AI making sure we're investing in some of the digital transformation ideas that Satya

talked about making sure we're investing in making windows 11 a great experience, investing in security, investing the technologies, frankly, that our customers are expecting us to deliver. And that requires a consistency, especially in engineering.

In terms of having a commitment to the roadmap we've talked about with our customers, and on the sales and marketing side. We've always been careful to make sure we're investing in a way that revenue grows. And so, I think sometimes people view this as an are you investing or are you managing costs? And really, it's about doing both making sure you're pivoting your resources all the time in a dynamic way. Technology moves quickly. We're a company that wants to move quickly. Our customers expect us to move quickly. And so, we need to move our resourcing in that same way to make sure we've got it in the right spots, and that's what we're doing.

### **A - Brett Iverson**

Balance is super critical. Thanks for that, Amy. The next one is for Satya. Can you talk about some of the initiatives Microsoft is working on an AI and the opportunities they present?

### **A - Satya Nadella** {BIO 3224315 <GO>}

Yes, no, absolutely. In fact, picking up on even Amy's last answer. I mean, in a tech company, I think the key is to be able to ride the current wave, and do that super well, in terms of both competitiveness, both on revenue growth and the operating expense, and catch the next wave. That's sort of the crux of what a tech business is all about. And so speaking of that, the next wave is really right upon us, which is definitely AI, we're very, very well structured to capitalize on this wave.

Because if you think about the opportunities this AI way brings, the first one is infrastructure. When I think about Azure, one of the things that we have done, in fact, in the context of even chat GPT, which today is one of the more popular AI applications out there, guess what it was all trained on the Azure supercomputer. Over the last couple of years, we've built the best infrastructure by bringing computing network together to train these large language models. Whether it's GPT, or dolly, and our cognitive services, and we have become the destination, if you look at and check with any elite AI team out there, they will tell you that the best infrastructure for doing anything AI is Azure.

And then the next point is we now have in Azure Cognitive Services. In fact, in Azure open AI service, the best LLM so these language models, which I think are going to be used broadly across the board. And then in our own applications, right design over dolly or power apps with GPT to do natural language automation. We're incorporating AI in across all of our-in fact, Nuance with DAX, I mean, think about sort of reducing physician burden using these large models. So, I think we've got an exciting portfolio of our own applications. We've got exciting(inaudible)real capabilities for developers, I forgot to mention GitHub copilot my favorite sort of AI tool that's changed my life.

So, I think where there is infrastructure layer, where there is Cognitive Services layer, or the application layer, we are definitely leading I would. When it comes to AI, obviously, it's just the beginning of a new wave. We are well structured. This is one of the things again, to Amy's point, companies in tech are really thriving long term only when they know how to catch the new wave and lead the new wave. And so, I feel from a Microsoft perspective, very, very good about that. Yes, exciting space.

## **A - Brett Iverson**

Brad, increasingly, shareholders are concerned about carbon output, and the effects on business operations. What steps is Microsoft taking to address these concerns?

## **A - Bradford Lee Smith {BIO 1721351 <GO>}**

Well, Brett, as you know, this is a big issue for Microsoft, it's actually a big issue. I think for almost every company in the business community worldwide. We committed the three of us actually committed, it will be three years ago, as we get to January, when we said that by 2030, the end of the decade will be carbon negative as a company, that means we'll be removing more carbon each year than we emit. It means that we'll cut our carbon emissions by 55%, from 2020 to 2030.

We're doing a lot to reduce our emissions. And it's fascinating to me to see the role that innovation is playing, including innovation that's based on our own use of AI and data and digital technology. The thing to think about when it comes to carbon emissions is it all comes down to three categories (inaudible) regardless of whether you're an individual at home, or you're a big business. The first is called scope one. That's the carbon that we all emit directly if we drive a car that's powered by gasoline, if we're cooking with natural gas. So, we're really being very resolute in basically eliminating all of those sources of emissions.

We're shifting to the electric cooking, so that we're no longer using natural gas. We're electrifying our fleet of shuttles and buses. We're even on a quest to replace our diesel generators outside our data centers, with hydrogen fuel cells and other things. The second thing everybody has to worry about is what's called scope two this is the carbon that's emitted for the electricity we use. So, if your electricity is coming from a plant that's running on natural gas, that's scope two emissions. We are a huge user of electricity through our data centers around the world.

So, a big part of our effort is to within two years from now have 100% of all of our electricity for all of our data centers in the world coming from renewable sources. What that means is that last year, our teams went out and they procured 5.7 gigawatts of renewable energy. That's enough renewable energy, almost all of it was wind or solar, to power more than five million homes. It's a lot. And then the biggest challenge we have the biggest challenge that every company has, is what's called scope three emissions.

This is what comes from your supply chain or from the use of your products. And for us, Amy and I are spending a lot of time on this working with our teams, it really does come down to our suppliers. 80% of the carbon emitted by our suppliers comes from 20 companies. So, we're working with those 20 companies we'll have to work



with them in some cases to help them locate in places where they have access to renewable energy, it means we're also focused on building more energy efficient devices. It even means that when we're building data centers or new buildings, we're buying greener concrete, greener steel.

So, all of these things have really become, I would say, infused in every part of Microsoft. And I'm extremely optimistic that we're not only paving the way that is going to deliver on our commitments. But along the way, we're bringing along our supply chain and finding new innovations that we're sharing with all of our customers, including with our cloud for sustainability, the Microsoft Cloud, we're, I think, in an extraordinary position to not only do right for ourselves, but to really help our customers across the board.

**A - Brett Iverson**

Have of all the different things that company's done. The sustainability commitment is the one my daughter's get most excited to talk about at home. It's super important.

**A - Bradford Lee Smith {BIO 1721351 <GO>}**

She'll be living with this longer than you and I will we better do a good job.

**A - Brett Iverson**

Absolutely. We have another question for you, Brad. Some shareholders question whether Microsoft is taking onto many social and environmental commitments and should just focus on profits? Can you talk about how Microsoft leadership decides when and how to address these topics?

**A - Bradford Lee Smith {BIO 1721351 <GO>}**

I think this is a great question, especially for a shareholder meeting. You heard Satya just before we started talking, describe our mission and the four pillars. And fundamentally, as you heard, our mission is about creating technology that helps other people achieve more. So, we're very grounded in serving other people. And fundamentally, when you think about how one considers this question, the thing that I think sometimes people miss is that we have this wonderful opportunity to do well for ourselves and do good for the world at the same time.

And that's where we really focus a lot of our energy, we probably spend more of our energy on standing up for the needs and rights of our customers than any other thing we do. protecting their cybersecurity not just individuals at home and companies, but look at Ukraine and the entire country, protecting people's privacy rights around the world. Think about what it means for us to get involved in protecting say that child safety online. That's great for children. But it's also a fantastic thing for our exports business because it makes parents more confident in the use of our services.

Well, thinking about what Satya was just describing AI in the future and ensuring it's responsible. So, we really focus on what will help customers, what will help employees, and what will help grow our business. And the truth is when we do those things, well, we do good things for others. And we actually help fuel ongoing growth in the value of this company.

**A - Brett Iverson**

Absolutely. Absolutely. Amy anything you want to add on this one?

**A - Amy Hood** {BIO 18040963 <GO>}

No. But I do think it's especially important. I think when people get asked when things are harder, is there a different trade? Is this too much to be doing? And that's the nature of the shareholder question, and I think Brad is right, it's a great question to ask. But to Brad's point, when you get sort of asked what are your priorities. If it's mission aligned, it helps customers, and it creates opportunity for Microsoft to build its own success, that's still at the top of what we should be prioritizing, and many of the things Brad just talked about will continue to be because they're durable. And they're durable benefits across all the sort of pillars Brad outlined.

And if they're durable across our customers, no matter if that's an individual, or a government, or the largest enterprises, whether that's our employees around the world, or whether it's our shareholders as the other pillar. What benefits one tends to benefit all it is mission focus for us.

**A - Satya Nadella** {BIO 3224315 <GO>}

Do you mean (inaudible) I like this definition that Colin Mayer has right of this, the social purpose of a corporation is to find profitable solutions to the challenges of people and planet. The first key word is profitable. We are grounded on it, which is we ultimately are accountable to our shareholders to run a company that is really at the core allocating its capital to drive profit. And we-and I think shareholders should hold us accountable for that. But also, shareholders should hold us accountable for solving the social problems and real challenges of the people in Planet.

Because if we don't, we lose long-term permission to be in business. And so that feedback cycle between the world giving us permission to operate as a company, and our investors giving us permission to operate are both sort of the same, in my mind, and so that's what we're trying to balance out.

**A - Bradford Lee Smith** {BIO 1721351 <GO>}

I do think the thing that is so interesting about that is, at the end of the day, almost every shareholder meeting for every public company in America is grounded increasingly in this conversation.

**A - Amy Hood** {BIO 18040963 <GO>}

Yes

**A - Bradford Lee Smith** {BIO 1721351 <GO>}

What's the proper role of a corporation? And one of the things I do feel good about is we have real clarity. It came in 2014, when Satya defined a new mission for us. It actually is the way we think about these and we answer these questions. And I think we've done more in the last seven, eight years, to do good for the world and grow shareholder value. And it's because the two are linked.

**A - Brett Iverson**

Yes. The end that you all mentioned is super critical. Thanks for that. Satya, we regularly get questions about future growth engines for the company. While the current business environment is challenging for advertising, our ad business has continued to grow over time. Can you talk about the role advertising plays in Microsoft's consumer business portfolio?

**A - Satya Nadella** {BIO 3224315 <GO>}

Yes, first of all, I'm very excited about Microsoft's opportunity. We have an ad scale, Vad business today, the combination of what we do with our search and news and LinkedIn, we've been growing. In the last couple of years significantly, both for example, Edge share has been going up Bing share has been going u, our newsfeed impressions have been going up. And obviously LinkedIn engagement has really increased in the last multiple years as well.

And so, through that our advertising businesses that scale, that Netflix deal that we did recently gives us even an ad network scale business, which we are excited about. But again, going back to the previous question, if I think about advertising. Advertising is fundamentally driven by some of the key core capabilities of AI.

And so, when I look at the all up Microsoft investment in our infrastructure, our AI capabilities, and our both ad network as well as on our own supply of inventory. I think I'm very, very bullish about sort of our long-term prospects around advertising. And we are definitely going to each day come to work to make sure that we are growing our share and relevance for advertisers.

And I also think it's very needed, right? Competition is needed because it's a highly concentrated market, as everybody knows. And Microsoft making progress means advertisers benefit, publishers benefit and this is super important for-I think, everyone in the marketplace.

**A - Brett Iverson**

Yes, large team and strong growth. That's a good combination. Brad, this one's for you. So how is Microsoft responding to the FTC decision to sue Microsoft over plans to acquire Activision Blizzard? And are you concerned that deal won't go through?

**A - Bradford Lee Smith** {BIO 1721351 <GO>}

I believe-I think we all believe that our acquisition of Activision Blizzard is fundamentally good for gamers, good for consumers, good for game developers and good for competition. And that's the case that will have the opportunity. It's the case we'll need to go present to an administrative law judge now that the FTC is sued to block the case. I think there's three dimensions of the FTC's case that an administrative law judge is certainly going to focus on. And we'll need to think hard about.

The FTC's case is really based on a market that they've identified- that they say has two companies and two products, Sony, PlayStation, and Microsoft Xbox. And if you look at the global market, Sony has 70% of that market, and we have 30%. So, the first thing a judge is going to have to decide is whether the FTC lawsuit is a case that will promote competition, or is it really instead of case that will protect their largest competitor from competition. After all, the whole reason we've pursued this acquisition is because it will add to our first party game library. And we think that will make us as the smaller competitor in this market more competitive.

Now, of course, the judge then needs to think about the second question. What about this actually poses a danger to Sony, the only company that they're focused on? Well, in reality, the FTC's case is all about one exclusive game. Not even exclusive because it's not today, so just say one game, Call of Duty. Now the reality is in the console market, every company wants to have some titles that are exclusive because that's how you build loyalty. Today, Sony has 286 exclusive titles. Xbox has 59.

So, it administrative law judge is going to have to decide whether going from 59 to 60 is such a danger to competition, that he should stop this from moving forward. And then there's the third dimension that this judge will need to think about. It's the fact that we have said explicitly and in a variety of ways, we won't make Call of Duty exclusive to Xbox.

We've offered to Sony to continue to make it available in a legally binding contract for ten years, we've reached an agreement with Nintendo to bring it to the Nintendo Switch where it's not even available today. And we offered last week, before the FTC commissioners met with us, before the FTC voted that we would submit to a legally binding consent decree with the FTC, that would make clear that we would have to provide Call of Duty to Sony and others for a decade.

And the thing that probably disappoints me is not that we will have to present this case to a judge in a court. Because this is a case in which I have great confidence. I'm disappointed that the FTC didn't give us the opportunity to even sit down with the staff to even talk about our proposal to even see if there was a solution there. Because I do think that if there's one thing we all know, whether you're a government or a business or a parent talking to your children, you will never solve a problem if you don't try.

And we are committed to addressing every regulator's concerns, to offering constructive steps to address them. And what I'm optimistic even confident about is that we have a case that will take to an administrative law judge in the United States. And we'll continue to meet with regulators elsewhere around the world. We'll meet with Sony anytime they want to meet, because we're all about finding solutions. Lawyers are fine. They'll make some great arguments. But at the end of the day, we're here to solve problems.

### **A - Brett Iverson**

Helpful context Brad. Thanks for that. A topic that comes up a lot security shareholders ask, how does the company look at both the risks and opportunities of cybersecurity? Satya, can you share some of the innovations around security?

### **A - Satya Nadella** {BIO 3224315 <GO>}

No, absolutely. In fact, Brad referenced even the work that we did in the context of Ukraine. It's sort of-I think the report that was put out is, I think phenomenal reading to just even understand, perhaps the cybersecurity innovation and capability we as a company have, and in support of our customers and even countries. When I think about security, there are two sides to it, right? One is really ensuring that the security products that we build, come together as one integrated whole.

Because one of the challenges of having multiple security products that just don't come together to help with the cyber defense means you have in fact, a bigger threat surface area. So, your identity, your solution, your endpoint protection, your application, security, and your infrastructure security and your network security all need to compose one control plane, one management plane, a set of policies that sort of transmit throughout.

That's, I think, the core of what we have done with the security products of Microsoft. And that's the reason why they become in the last even multiple years, much more competitive in the marketplace. And that's what's driving even our financial results. But then the second aspect of it is security IS intelligence came out a signal's game. So, the data that we have, the trillions of events we see, we just don't just sort of process them analyze them, we actually translate that intelligence into active protection, right?

So, when there's a new ransomware signature, somewhere zero shot, are we able to recognize it. I always say that in this game, you may have one victim of anything new and novel. And that's it, you have to stop it as soon as you see it. And that's about really around tripping the data and the signals to protection. And so, a lot of innovation in there. We're very committed to first and foremost ensuring the digital estates of our customers are secure by design.

And then making sure that we also recognize that customers have heterogeneous environments and that we are going to go beyond even just our product set to make sure that everything that's happening in this landscape is something that we are actively protecting.

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## A - Brett Iverson

Perfect. Thanks. It's a good one to close on. Thanks, Satya. This concludes today's Q&A session and wraps up our annual shareholders meeting. Thank you for joining us today and your participation in our meeting. If you have further questions, please visit our Investor Relations website. Thank you.

## A - Bradford Lee Smith {BIO 1721351 <GO>}

Thank you all

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