Credit Suisse Technology Conference

Company Participants

- Kevin Turner, COO

Other Participants

- Philip Winslow, Analyst, Credit Suisse
- Unidentified Participant, Analyst, Unknown

Presentation

Philip Winslow {BIO 6300579 <GO>}

All right. Well. Good afternoon, everyone. And thank you for making it through the third day of the annual technology conference. Very excited to have the final keynote of the event, Kevin Turner, Chief Operating Officer for Microsoft. And the way this session is going to work is Kevin is going to have a few slides to sort of level set for us. And then we're going to go over here, have some Q&A and then open it up for the audience as well. So with that, I would like to welcome Kevin Turner, Chief Operating Officer of Microsoft, to the stage. Thank you, Kevin.

Kevin Turner {BIO 5265779 <GO>}

Thank you very much. I appreciate the opportunity. And really excited about the opportunity to be able to talk to you a little bit about what Microsoft has going on, specifically our transformation to a productivity and platform company in a mobile first and cloud first world.

As you've been in technology and in this industry a long time, you'd have to say it's a very exciting time to be in this business. The pace of change, the rapid flow of technology, the innovation, the speed at which things are happening have never been as high and as escalated as they are today. That's both exciting, exhilarating, a lot of hard work going into it. But I would also say the same about Microsoft. There is a lot of change, speed and agility and opportunity that we are seeing as a company. And we are under a lot of change and transformation. And I'll talk about that transformation today and give you a little color and insight into how we see that world and the way that that world is evolving for us from a business perspective.

To level set, the Company, Microsoft, is 39 years old. Our 40th anniversary, as many of you may know, is next year. The first 39 years of our company, we had one of the greatest business models of all time built around certainly the Windows Client operating system and the PC operating system and catching that wave of innovation certainly was very good to the Company. Then followed suit with the Office

productivity suite and all of the workloads associated with that. That was our second big franchise. Then our foray into the enterprise and really coming out with Windows server and building out and building and extending that into SQL and other enterprise products and solutions.

But primarily that business model was attach, attach our software to as many sockets as we can. And it was license focused. And the beautiful thing about the old world business model was that, hey, as a customer bought our software, we got paid 100% of it upfront and we got paid regardless whether they used it or not. And the ability to transition from that business model candidly is where we are today.

So just to ground everybody, this was our past. If you look at our future, it's really about becoming a cloud OS, a devices operating system, having first party hardware to light up those experiences. And really being the company that can uniquely provide for dual users this idea of digital work and digital life experiences. And doing all of that really helps transform our company from a PC OS, an office productivity suite and Windows server company, to really being a productivity and platform company as the world has evolved into mobile first and cloud first.

I think Satya has summed it up and said it extremely well when he said our company is going to reinvent productivity to empower every person and every organization on the planet to do more and achieve more. And so that is our North Star as an organization for those dual users, both in life and at work, regardless of the device.

So when you think about one of the big opportunities we have with being a platform and productivity company, is that our opportunity, our uniqueness, is really about our ability to reinvent productivity. And to reinvent productivity, it simply means that we are going to provide the tools that end-users need again to achieve more and do more. And we're going to do that across mobile. And so that any device can become your device regardless of the operating system; social, the ability to connect and bring multiple data sources and multiple device types together so that you can create unique business value; intelligent systems backed up by machine learning. And really allowing us to get to predictive analytics and predictive intent so that we can anticipate and help people prioritize what is important in their life; and natural, that natural user interface, new frontiers of technology again enabled by machine learning. But new ways for speech, voice, video, data, inking. And gestures and on and on is a very unique position that we see as all unique opportunities in a cross-platform way to be able to reinvent productivity. And we are very excited again to bring that experience across dual users, both in work and in life.

Now, the company Microsoft is under a lot of change. And we've certainly had a fair amount of change with a new CEO, new strategy, new transformation, productivity and platform company. But we are also taking some very bold decisions and taking some very important steps. The Nokia synergies and streamlining and efficiencies and strategic alignment, getting into that particular piece of first party hardware was important for us to get a footprint in the mobile space. Modernizing our engineering organization so that we can be faster and have more speed and agility and

quickness and responsiveness to the marketplace. That is all supported and backed up by some massive organizational changes that we have done.

We now have one operating systems group, one cloud group, one applications group, one hardware and devices group, one marketing organization. Those are not trivial changes in our company that for 39 years lived and worked and thrived, candidly, in these product silos. And you will see as we talk about some of our forward-looking product solutions and services that come to market, you will see some of the themes that we've had in the past go away. And very naturally go away because of our modernizing of our engineering organization.

Creating first party hardware has been important for us. So important that the best two-in-one device for productivity on the planet is a Surface Pro 3 today. And we want to get into that space, in the first party hardware space, not to create all the hardware; that's not our intent. Our intent is to lead the innovation curve and push our OEMs and others to innovate faster.

We love great third-party hardware and partnerships. In fact, one of the big changes we have made as an organization is we made some very significant strategic third-party partnerships. When you think about the likes of Salesforce and IBM and Dropbox, Oracle, Cisco and on and on and on, our company today has completely changed how we see the importance of third-party partnerships. And yes, we're going to compete with all of those folks head-up. But we are able to have coopetition, a new word that we are continuing to learn exactly what it means and how we are able to create swim lane clarity around.

IBM as an example, we will compete with them on notes for sure. But we have embraced DB2 and WebSphere and we run those seamlessly onto the Azure platform. That's an important step for us. We are doing a lot with IBM now as it relates to our dynamics platform and portfolio. Salesforce, again extending the Office platform, getting into great partnerships with them to be able to light up CRM in a unique way. And yet I will compete with them on CRM directly. And the list goes on. But you get the sense and the flavor of the fact that the tone at the top for Microsoft is we will embrace and extend the platform in these very strategic areas. And we are really putting, again, the agreements along with the words.

Zero royalty on 9-inch and below devices. The very week, ladies and gentlemen, that we announced this change in Shenzhen where roughly 80% to 85% of the world's consumer electronics is created, we saw 36 design wins in addition over week over week when we made the single change. And we've seen that momentum continue to accelerate.

And you are seeing a whole new level of innovation in the marketplace running Windows today. You're seeing $200 laptops, you are seeing $99 Windows tablets embracing and extending the ecosystem by lighting up some of these new business model scenarios, allowing us to monetize the lifetime of that customer through

services and different add-ons that we are able to be able to incorporate with that solution.

Office and .net going cross-platform, very important for us again to embrace and extend. And I'm excited about those changes, being able to run on iOS and Android as well as our own platform.

And the cloud investments and competitiveness. This is one of the things that we have been doing for multiple years. And we have a substantial lead against the competition in this space relative to our regional data centers. And I'll talk some about that in a moment. But that has been very strategic for us, helping our customers move from CapEx to OpEx and being able to embrace and extend this cloud services world.

And we're working extremely hard on simplifying our licensing to more of a subscription-based model in most cases and making it very elegant for our enterprise customers and for other customers to be able to embrace and extend our product portfolio and solutions.

But the reality is we've got more to do. This isn't -- we are not declaring victory around these things. We are simply taking the bold actions that we need to take head-on and as a senior leadership team working together in a very collaborative and teamwork-oriented way to solve these really hard business decisions and business model opportunities that we have. And that really feels good. That's brought a real breath of fresh air and energy to the Company and one that I know -- I speak on behalf of a lot of employees -- we are very excited about. And oh, by the way, it's manifested itself in the marketplace with great momentum.

Our commercial cloud revenue grew triple digits, 128%, driven by Office 365 Azure and CRM Online for the fifth consecutive quarter. And we are seeing strong momentum around those products and solutions. 80% now of the Fortune 500 have embraced the Microsoft cloud. And again, that number continues to accelerate and go up.

One major Azure service or feature is released every three days. So we are moving from a three-year product cycle to a three-day product cycle, which is extremely invigorating for both our customer base and our employee base and engineering base to be able to embrace these new user scenarios and opportunities for our customers.

At the same time, as much progress as we are making around the cloud in both the private, public. And hybrid cloud environment, we are seeing great uptake of our on-premises product like SQL Server, System Center and Windows server. And I believe the strategic reason behind that is because we are able to do these massive hyperscale 1 million square foot data center cloud environments. We are taking the learning from that space and incorporating that into our on premise products. A great example of that is our SQL Server platform.

SQL is now the TPC benchmark leader in two different categories. And it's 30 times faster than the previous version. It has in-memory technology built into it. And it's a third the price of our competitors. So that's why you see us making so much progress on the on-premise products is because of incorporating that functionality and flexibility. System Center now supports Android and iOS devices in addition to our own. And being able to have that end-to-end management solution has been very strategic with our customers.

And Surface Pro 3 is just a home run for us from a device perspective. It is the best two-in-one device out there. We've made the top gift for a lot of different surveys that have gone on for this holiday season around the world, including beating out some of our competitive products in that particular space, something we couldn't do a year ago, two years ago. But it is an incredible device, particularly if you want to replace having to carry around two devices instead of one.

The opportunity that we have going forward is to continue to leverage the unparalleled platform that we have. If you think about Microsoft Azure and Windows server and the opportunity we have there, the way I like to think about this is you really have about 2.5 companies in all of technology from a multinational standpoint that have hyperscale cloud. Google certainly has a hyperscale cloud. And I count Amazon as a half. And the reason I count them as a half is they are not completely global at this point and they don't have the functionality and redundancy. And when you think about those two competitors, we have 19 regional data centers across the world. That is six times more than one of them and two times more than the other. And so the ability for us to bring market-leading cloud technologies to our customers exists because we have hyperscale cloud. So the beautiful thing about that is we didn't come at it from an enterprise perspective down into this particular space. We came at it from our giant consumer services that we have. We have 400 million people using Hotmail.com which became outlook.com. We have 300 million people using Skype. And if you look at our services in the cloud, it's allowed us to participate in this commodity price storage and compute environment and upgrade those customers to our value added services. In fact, 60% of the customers we've got on Azure use our value added services. And that number only continues to grow as we add more and more value added services.

The other thing that's unique about our particular cloud in addition to hyperscale is the fact that we are the only multinational technology company that gives you public hybrid and private cloud options and do it in a sincere way. We have those so that we can help customers build that cloud on their terms. When you think about that opportunity coupled with the fact that we are also an open cloud, we host IBM, we host SAP, we host Oracle, we host some Linux, you can develop in the language of your choice -- .net, Java, C++ on our cloud -- is an incredible opportunity for us to open that up. So we actually make it very easy for enterprise customers specifically to on-ramp and onboard our commercial cloud. And this, coupled with hyperscale, coupled with our three different types of clouds, is something no other company can offer a customer today.

Now, the other thing that I would tell you, particularly in the private cloud space, is our Hyper-V product for virtualization is on fire. And I'm sure most of you look at the share numbers. Each and every quarter we go up. Each and every quarter our biggest competitor in that space goes down. And we are growing at over twice their rate today. Why? Have a better product, because I'm building out these Hyper scale multi-million square foot data centers. And I am a third the price. And so when you are able to get better technology at a third the price and have a compelling value proposition, customers truly want to do business with you.

The other thing that's very important to customers today is data protection, privacy and security. And I'm proud to tell you that Microsoft has taken the high road in this particular space. We have done all the things around creating security pillars and building it into the data. We don't snoop your email. We don't sell your data. And this is very important. We were the first company on the planet to get the EU model clause compliance. We work around the world. We are the only multinational technology company today to have a cloud inside China, a business cloud which is very important for us. And so you are seeing us scale that data and the cloud infrastructure that we have. And do so in a very responsible and intentional way. Built-in security, privacy by design, continuous compliance, having complete transparency in our services and operations is a very important element of our Microsoft cloud for the business.

Now, before I close, I thought it would be helpful to talk about Windows. Windows seems to be on the mind a lot of folks today. Certainly that's a big important franchise for us as a company. I will tell you this, it's now the third biggest entity within our company behind the Office franchise and our enterprise franchise.

The thing I want to tell you about on Windows 10 is in the Windows 10 timeframe, which we plan to talk about the end-user consumer experiences in the early spring, we will have a developer preview and be able to talk to that in-depth in the early summer timeframe. And then by next late summer and early fall, we will be able to bring out this particular OS. That's the current plan of record.

Now, the thing that I want to tell you about Windows 10 is that it's very unique from any operating system we've ever built and any operating system that exists today. We have actually taken those four OSs across our embedded operating system, which is basically for our Internet of Things and all embedded devices, our mobile operating system for our phones and phablets and tablets, as well as our laptop and desktop operating system and our Xbox operating system and build that single kernel across all of those entities. And the beautiful thing about that is it allows you to have one platform for drivers and apps.

Now, what does that mean to an enterprise customer? It really means that you are able to build an application now and have it run across that entire spectrum of devices tailored to the individual device with minimal touch and changes. So now you can write that application, have it actually run across Internet of Things, have it run across your mobile devices, have it run across your laptop and your desktops. And your TV with Xbox. And you have a common kernel within that.

We have one developer API now. We have one interface to silicon with Windows 10. And so that gives us the capability of having one store, which also gives us the capability of having one experience tailored to every device.

So as you see, this opportunity that we have for Windows 10 is huge by leveraging the entire ecosystem. We are delivering on this promise with this OS. Today, we currently have in technical preview the enterprise version. And we are getting great feedback and Terry and his team are taking that feedback and making real-time enhancements and improvements based on the number of people that we have using it in enterprises today.

Windows 10 will be the best enterprise release we've ever done. All of the things that companies love about Windows 7 will be included. In addition to that, it will have some incredible features and functionalities around security, privacy, data protection. It will be thinner, lighter. If you want your UI to look like a Desktop and look like Windows 7, you can do that elegantly and seamlessly. If you have a touch device, we can light up the touch experience for you or not. And on and on and on. There are many, many changes that we put into this particular OS to make it the best one we've ever done. And our goal is to have Windows 10 run across billions of devices. And being able to tap into that entire ecosystem from Internet of Things all the way up, as I said, to the TV is an important element and an important opportunity for us.

So the one experience on every device for everything in your life is the promise that we are delivering on Windows 10. So we are very excited about where that can go and the way that we're going to get there. And again, it's going to be a very good opportunity for us to reinvigorate the entire Windows ecosystem around that.

With that, I'd really say a couple of things. One, the Microsoft momentum is building. It's building across the cloud. It's building across our key devices that we've done in first party to be able to lead the ecosystem in innovation. The Microsoft Company is reinvigorated with energy, enthusiasm around productivity and platform in this mobile first and cloud first world. And we see the opportunities that we have as extremely high and extremely opportunistic going forward, greater than anything we've done in the past. We think it's there for us to be able to get across those dual users in the marketplace.

With that, I'll pause. And I think we're going to open it up for some questions. And take the dialogue where you want to take it.

Questions And Answers

Q - Philip Winslow {BIO 6300579 <GO>}

Fantastic. I'll start with some questions before opening up to everyone in the audience. But what you described is really a very interesting call it year and a half at Microsoft. You're the new CFO. Obviously, you have a new CEO, Satya Nadella.

I'm wondering if you can talk about kind of what you just ended on here to the degree, the momentum that you talked about in the business. What are the leadership changes and you're obviously still COO. What has changed from a leadership perspective? How is that trickling down into the workforce?

A - Kevin Turner {BIO 5265779 <GO>}

You know, I think -- look. We have embraced a lot of change. And I think certainly, at the top, it's wonderful to see a reinvigorated energy around really getting focused around productivity and platform. And Satya has really crystallized and galvanized that view for the entire organization. And I think that's a really exciting place for us. We see that across dual users as truly our unique position in the marketplace to be able to deliver that.

The engineering organizational changes I talked about that have also landed with our senior leadership team have changed our company. We are faster; we are more agile; we are listening to customers better than we ever have. And I think that's wonderful to see.

The third area I would touch on of these strategic partnerships that we've done across IBM, Salesforce, Dropbox, Oracle, Cisco -- it's wonderful to see us extending the platform with these what would generally be very competitive environments and being able to find the right balance between cooperation and competition. And that's why I used the word coopetition, because we really see that as the future of the computing platform. And I think that's really customer friendly from that approach. It allows customers to really vote by what they buy and to have that freedom of choice and innovation wins in that space.

The last thing I would say is I think there's been a really healthy renewed sense of financial rigor and discipline, particularly around areas that we may have invested in in the past that didn't make money.

I would tell you there's a real sense of get-healthy plans, getting those things to profitability or taking other actions that is very refreshing for us as an organization. And I think culturally I would tell you that there's a real excitement. There's a real buzz. There's a real energy. And look, nothing breeds acceptance like success. So we've got to continue to perform and take care of our customers and take care of our partners in the marketplace. And I think that momentum will only continue to accelerate.

Q - Philip Winslow {BIO 6300579 <GO>}

And one of the things I thought was very interesting is you ticked off a lot of those very meaningful changes that you've made in a very short amount of time. One that really struck me and I know talking to investors was viewed as very un-Microsoft like, or kind of against maybe historical dogma was when you actually moved some of the office productivity applications to iOS. By the way, I've got them on my phone and I love them, use them all the time. And many people in the audience have talked about it at this conference, about using them across multiple devices. What was the

strategy behind it? What made you make that jump. And how does this feed into the Office 365 strategy?

A - Kevin Turner {BIO 5265779 <GO>}

First and foremost, I am thrilled with the changes of bringing it out cross-platform and something I've been a big advocate for as well. And it allows us to extend that Office franchise and bring our services in a new contemporary way to a lot of platforms that we didn't get the opportunity potentially to participate in. And we made some business model changes with that, making it free on the iPhone and different things. And you're seeing us work aggressively to make sure that we've got a great experience across Android and iOS as well as the Windows platform. And so it gives us the ability to bring in a lot of other services like OneDrive and Yammer and SharePoint Online. And it opens up a whole new opportunity for us to monetize the lifetime of that customer in a different way than we potentially didn't have in the past. So we've seen great uptake, 35 million downloads on Apple alone. And that's great. So we think that there's momentum there. We're going to continue to do that and make strategic choices around that. And we're also still going to run great on the Windows platform and continue to bring it along there too. So I think it's a very smart contemporary way for us to approach that.

Q - Philip Winslow {BIO 6300579 <GO>}

Staying with Office 365 for a moment, because that seems like such a huge opportunity for you guys. You have talked about the ability to monetize more frequently, broaden the user base on this. But maybe step through from your perspective just how you think about it, both for the consumer and particularly at an enterprise angle, how you bring this to market and what is the opportunity for Microsoft?

A - Kevin Turner {BIO 5265779 <GO>}

A lot of our enterprise customers today have an enterprise agreement with us. And so the transition, the beautiful thing about Office 365 is it allows us to take an enterprise customer today and move them very elegantly and seamlessly over to Office 365. The power in that says that we're going to keep them current. The second thing is it gives us the ability to -- we're going to keep them safe and secure because we're going to patch it for them. So they're going to get to take advantage of the latest and greatest innovation, we're going to keep them safe and secure. And it allows them to take advantage of a whole new frontier of computing. And there's four different SKUs for Office so everyone doesn't have to have one flavor for everybody. You can actually have four different variations depending upon your depth and breadth that you want to use the product.

So customers, the response of customers have been fantastic around that product. And it's been very well embraced by the marketplace. And it's a big dog. It's growing and it pulls and a lot of other opportunities that we have.

So look, across our cloud businesses. And I think you all know the numbers. But previously we announced the fact that that was more than -- across our commercial

cloud was more than a $4.4 billion run rate business for us. And it's growing, as you can see, in the triple digit ranges.

Office as a franchise, though, is $20 billion. So we still have plenty of opportunity and upside to move across Office, Azure and CRM Online. We think about what we call our core commercial cloud services, we still have plenty of opportunity to move more and more customers to the cloud.

In the consumer space, again, with our home subscription service and Office 365 for Home, we've signed up over 7 million customers. The growth rates on that have also been very positive for us. Again, it allows us to monetize the lifetime of that customer, to keep them current, to keep them safe, keep them secure. And it builds greater product satisfaction over the long-term. So it's upside on both sides. But it's definitely a business model change for us. And one that we are very pleased with the progress and the receptivity of customers, both enterprise and consumer.

Q - Philip Winslow {BIO 6300579 <GO>}

You've got one user set here in Team Winslow at home. So you've got one subscriber.

A - Kevin Turner {BIO 5265779 <GO>}

That's great.

Q - Philip Winslow {BIO 6300579 <GO>}

I'm very happy with the software. Let's talk about the commercial cloud for a bit and focus on Azure. It's really been fascinating to watch the evolution of Azure, frankly some platform of service, adding infrastructure, becoming more open, embracing once again some maybe nontraditional Microsoft areas. Like you just mentioned Linux and IBM. Let's talk about the momentum there. What are you guys seeing? What do you think has been the key differentiator that has built that momentum? And what are the key milestones that you're looking at going forward?

A - Kevin Turner {BIO 5265779 <GO>}

Look. I think the Azure platform is really important for us. And I think one of the big declarations that Satya made was, look, everything that we have internally is going to run on Azure. And the ability to make that migration and move has allowed us to truly get a cloud, both infrastructure as a service and platform as a service, that will scale.

We as a company started out with a platform as a service and grew into infrastructure as a service. Most companies -- most competitors are starting out as infrastructure as a service trying to become a platform as a service. So we actually have a unique value proposition there to be able to on-ramp and bring people to the future. And the future is really about being able to take advantage of an elastic cloud. You can't take advantage of an elastic cloud until you get the platform as a service. So it's been very strategic for us in how we both go to market and moving existing infrastructure.

And in how we actually are able to help people rewrite applications to take advantage of the cloud. That's been very important and strategic for us.

The openness to the platform has really allowed us to go in and have conversations. When you talk about a customer who runs SAP on DB2 or SAP on Oracle databases, it's a very simple transition for us to be able say let us host those for you in Azure and let us lead the way and be able to take that. That's been fascinating, candidly, on being able to get customer uptake and interest around that because they are very excited about that opportunity. And that helps us bridge, in my view, it opens up new share of wallet opportunities that we've never had before. And we're just in the beginning of that because these partnerships, most of them are fairly new. But the customers I talk to and the customers I visit, which are regularly, they are very excited and there's a lot of anticipation and opportunity around that and we hope to harness it.

Q - Philip Winslow {BIO 6300579 <GO>}

I've got enough questions here to fill another 45 minutes. But I'll pause for a minute because I did promise to let some questions from our audience and we will start up front.

Q - Unidentified Participant

I want to get your thoughts on pricing relative to Windows 10. You've already opened the door sort of zero growth rates on 9-inch devices. When you think about a unified platform, does Windows 10 kind of go down this path of a loss leader in trying to keep people within your ecosystem and then upsell everything else on top of that? How are you thinking about that as you go down this path?

A - Kevin Turner {BIO 5265779 <GO>}

We haven't announced the Windows 10 pricing framework yet. The one thing I can tell you that we've not had any conversations on is Windows 10 being a loss leader for us.

Q - Philip Winslow {BIO 6300579 <GO>}

I hope you don't start losing money on Windows. (multiple speakers)

A - Kevin Turner {BIO 5265779 <GO>}

That's not in any conversations that we've had. The thing about it is we've got to monetize it differently. And there are services involved. There are additional opportunities for us to bring additional services to the product and do it in a creative way. And through the course of the summer and spring, we will be announcing what that business model looks like. At the same time, it's wonderful to see these 9-inch and below devices explode because that was an area, candidly, that was blocked out and I had no share of what was getting built. But it is a very fascinating transition for us. And finding new ways to monetize the lifetime of that customer on those devices? Again, I would tell you we are learning, we are growing and we're smarter and wiser every day. And we still have some more learning and growing to do in that

space. But stay tuned, the business model stuff will be out in the early -- probably the early part of 2015.

Q - Philip Winslow {BIO 6300579 <GO>}

And your point on the 9-inch devices, you've seen some amazing devices come out. Just on Black Friday, I was looking at some of those. And (multiple speakers) potential off of those --

A - Kevin Turner {BIO 5265779 <GO>}

It was shocking. The $199 laptop that HP put out was amazing.

Q - Philip Winslow {BIO 6300579 <GO>}

It was awesome.

A - Kevin Turner {BIO 5265779 <GO>}

The HP Stream was what it was. But it's an amazing device.

Q - Philip Winslow {BIO 6300579 <GO>}

It's amazing how quickly you've seen innovation there.

So other questions from the audience? Otherwise I'll keep firing away.

Q - Unidentified Participant

Can you talk a little bit about balance sheet optimization and how front and center that is in terms of your priorities? The balance sheet optimization like changing with the capital structure, maybe raising debt and returning more capital back to shareholders.

A - Kevin Turner {BIO 5265779 <GO>}

We continue to, as a leadership team and with our board, look for a very balanced review. Now, you have -- we're pretty proud of the fact that last year we returned 28% more. In the First Quarter, we returned 19% more than the year before. And those are, again, numbers that we are very proud of as an organization. We continue to look at that from a long-term perspective with our board. And we have a new board in place. And that's something we constantly review and they constantly review. And it is something that our company is going to continue to take the right approach for both short-term and long-term perspectives and create long-term shareholder value. That's what we are about.

Q - Philip Winslow {BIO 6300579 <GO>}

Other questions up front?

Q - Unidentified Participant

You mentioned that obviously the momentum that is growing Microsoft --

A - Kevin Turner {BIO 5265779 <GO>}

The what?

Q - Unidentified Participant

The momentum that is growing Microsoft, I'm just wondering what kind of situation this momentum may be slowing down.

A - Kevin Turner {BIO 5265779 <GO>}

Momentum?

Q - Philip Winslow {BIO 6300579 <GO>}

Where it might be slowing down.

A - Kevin Turner {BIO 5265779 <GO>}

Momentum? Look. I think most of the momentum that we see in the new product solutions and services, we are not doing that many large exchange implementations today. We're doing a lot more Office 365 migrations. So you are seeing -- when you take a look at Windows Server 2003, the opportunity we have is moving those customers to the cloud. And so you are seeing there are some trade-offs there. So it would be mostly at the expense of moving some of the cloud workloads, taking some of the traditional on-premise workloads away. That said, products like SQL and System Center continue to accelerate in their own right. So that would be the true trade-offs I would say from a momentum perspective. And then certainly from a macroeconomic standpoint, China and Russia both are very difficult in their own rights today for multinational technology companies. So momentum-wise, those would not be areas where I don't think -- I think most companies would say the same, that aren't as good as they were, at least previously.

Q - Philip Winslow {BIO 6300579 <GO>}

Actually, I have a question. You brought up an interesting point on Windows Server 2003 and hitting end of life. That's actually been a big topic. There are a lot of new conversations here actually from a hardware perspective around the conference. What do you think that means coming up here for Microsoft and sort of for the industry? Because there's obviously a lot of focus on XP end of life in the PC world. What does this mean in the server world?

A - Kevin Turner {BIO 5265779 <GO>}

Sure. I know that we've got great relationships going on with a lot of our partners like HP and Dell and others. And we are charting the accounts and doing the mapping and going after those as aggressively as we can. At the same time, we want to migrate as many of those as we can to the cloud.

For Microsoft, the majority of our enterprise customers are on an enterprise agreement today from an annuity perspective. And that's something that is very accretive to us, being able to move or port someone and get somebody up. So it's not that big for us inside financially as much as it is strategically getting them on a current modern platform, which we feel very good about. So there's going to be certainly some opportunities there. But I think our partners are going to see a nice lift there as we are able to get through these accounts, penetrate them and convert as many as we can.

Q - Philip Winslow {BIO 6300579 <GO>}

Got it. We have a couple of minutes left. So I'm going to ask a question sort of fast forwarding 12 months (inaudible) you or Satya or Amy 12 months from now will hopefully be up on stage Chris and so one of three coming back and saying, okay, these are the milestones that we hit over the next 12 months. Because you've done so much over the past 12, what are your key focus points going forward that you really want to hit?

A - Kevin Turner {BIO 5265779 <GO>}

Look, we want to accelerate our leadership position around productivity and platform. And those -- in this mobile first cloud first world, those are the big markers and true North Stars that we are driving the Company towards. That means we want more people on deployed and consumed on the products itself. Office 365, Azure, CRM Online, those are gigantic focus and momentum behind those areas. And those are the ones we're going to get behind and drive hard. And I don't think -- I think as a company we have been very consistent in talking about that. We want to continue to improve our position in mobile. We want to continue to see Surface Pro 3 do well. We want to have a great launch with Windows 10. Those are very important for us. And we've got a lot of other solutions, a lot of other products and scenarios. But I would tell you making sure that those franchises that I just mentioned all are healthy and vibrant would be very important for us.

Q - Philip Winslow {BIO 6300579 <GO>}

We've hit zero on the clock. And I just want to say you guys have made such great progress in such a short amount of time. I'm really excited see what you guys do the next couple of months, the next couple of years. (multiple speakers)