

Citizenship Report

Customers | Partners + Developers | Community | Environment | Employees

2003

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We see this report as an opportunity to share how we view our roles and responsibilities as a global industry leader and corporate citizen, and to enhance our communication with our many stakeholders about the ways we fulfill them. In this overview, you may discover things you never knew about Microsoft—from how we create innovative new technologies to how we empower people who have disabilities, and from how we support and advance open technology standards to how we strengthen communities worldwide.

Microsoft's mission is to enable people and businesses throughout the world to realize their full potential. It is grounded in six core values that are the foundation of our business, and expresses our conviction that it takes more than great products to make a great company. We believe that our mission, although ambitious, is achievable. But we also know that we can't do it alone

Our business is built on relationships—with our customers, partners, investors, and employees, and with the many countries and communities around the world where we live and work. These relationships are crucial to us, and they depend on the choices we make and the actions we take every day—as a company and as individuals. We are committed to keeping those relationships strong

and healthy by communicating openly about our business practices, being transparent about our performance, and remaining accountable for our conduct.

As Microsoft has grown as a company, we have learned a lot about what it takes to build trust and keep it, to earn respect and return it, and to create the kind of business environment that inspires successful partnerships and collaboration. We know that our decisions have significant ramifications for other companies, and for people and communities worldwide. We take that responsibility very seriously.

Global citizenship, like the rest of our business, is a work in progress. This overview simply provides a snapshot of where we stand today, because every program and activity highlighted here is active and ongoing. We look forward to continuing to make a lasting difference in the lives we touch and the communities where we do business, and to empowering more people who-because of age, geography, physical disability, or economic barrierscould not otherwise reap the benefits of technology. We also aim to do even more to deliver the best value for our customers and partners; to increase our transparency as a company; to make the Internet a safe and trustworthy environment for everyone; to limit our environmental impact and conserve natural resources; and to provide an outstanding work environment for our employees.

We are unceasingly optimistic about the future of technology and the positive things it can do for people worldwide. And while we're proud of what we've accomplished, we're even more excited about the opportunities that lie ahead for our company and, in partnership with others, for the global community.



Steven A. Ballmer Chief Executive Officer

Chairman and Chief Software Architect

Bill Hates

Company Overview

Microsoft is still a young, innovative company in an extremely dynamic industry. We've come a long way in a short time, but the global business environment in which we operate is evolving rapidly, too. Companies worldwide are being challenged in new ways—not only to offer better products and services, but also to enhance their corporate governance and provide greater transparency in how they conduct their business. At Microsoft, we have made changes in our organization that are designed to provide better customer service, create more opportunities for partners, and enhance our contributions as a responsible industry leader.

The Journey So Far

In 1975, most people had never heard of personal computers. You couldn't even buy one—unless you wanted to buy a kit and build it yourself. Collaborating with co-workers meant poring over photocopies or, worse, carbon copies of documents. And for communication, we relied entirely on telephones or the mail.

Microsoft co-founders Bill Gates and Paul Allen saw the potential to turn a hobbyist's toy into something more. They wrote a version of the BASIC software language that would work on the first "personal computer," the MITS Altair 8800. Microsoft BASIC, and the many software programs that soon followed from our developers and partners, helped spark a worldwide technology revolution that has transformed the way people live, work, learn, and are entertained.

Bill's and Paul's early vision of a computer on every desk and in every home seemed like a fantasy to most people when the two friends founded what was then called Micro-Soft. Today, it's almost a reality. More than 1 billion personal computers have now been sold around the world, along with billions of other digital devices, all able to share information in amazing ways.







What fueled this revolution was the belief that software-if made affordable and accessible to more peoplewould remove barriers and transform technology into an extraordinary tool that would empower millions of people around the world.

Today, Microsoft employs more than 54,000 people in over 80 countries. From programming languages and operating systems to Internet services and games, we've created just about every kind of computer program imaginable. And we've never lost our passion for developing great software that enables people and businesses throughout the world to realize their full potential.

As Microsoft has grown, so have our responsibilities as a global industry leader. Those responsibilities require us not only to compete, but also to collaborate. We make investments that help build the communities where we do business, and create opportunities for people who are disadvantaged. To ensure that the way we operate our business limits our impact

on the environment, we recycle and reuse many materials to conserve natural resources. We work hard to maintain a positive work environment for our employees and vendors. And, underlying it all, we create innovative software that helps change the world by empowering people to transform their lives and open the door to their individual dreams.

Our Core Values

Six core values guide Microsoft and serve as the foundation for everything we do. More than a corporate philosophy, our values are as fundamental to our business as an operating system is to a personal computer. They are:

- Integrity and honesty
- Passion for customers, partners, and technology
- Open and respectful with others, and dedicated to making them better
- Willingness to take on big challenges and see them through

- Self-critical, questioning, and committed to personal excellence and self-improvement
- Accountable for commitments, results, and quality to customers, shareholders, partners, and employees

Our Mission

Our mission grew out of our core values and remains closely aligned with them. It is to enable people and businesses throughout the world to realize their full potential.

Organized for Service

We have organized Microsoft around seven core business groups, because we believe this structure offers us the best opportunity to serve our customers—and to provide our investors and partners with a clearer view of how we operate our business and govern the company. Those business groups are:

■ Windows® Client, including the Microsoft Windows XP, Windows 2000, and Windows Embedded operating systems





- Information Worker, including Microsoft Office, Microsoft Publisher, Microsoft Visio®, Microsoft Project, and other stand-alone desktop applications
- Business Solutions, encompassing
 Great Plains® and Navision® business
 process applications, and bCentral™
 business services
- Server Platforms, including the Microsoft Windows Server[™] System integrated server software, software developer tools, and MSDN®
- Mobile and Embedded Devices, including the Pocket PC, the Mobile Explorer microbrowser, and the Smartphone software platform
- MSN®, including the MSN network, MSN Internet Access, MSN TV, MSN Hotmail®, and other Web-based services
- Home & Entertainment, including Microsoft Xbox®, consumer hardware and software, online games, and our TV platform

Just as we constantly update and improve our products, we want to continually evolve our company to ensure that we are always in the best position to create innovative new technologies—and to provide outstanding service to our customers.

Business Operations

Responsible corporate citizenship is defined by good behavior, not good intentions. At Microsoft, we're proud of the way we operate every aspect of our business, and maintaining that high standard is the responsibility of every Microsoft employee, contractor, and vendor. That's why we have codes of conduct, environmental policies, and other guidelines that spell out exactly what we expect from the people who work at, and with, Microsoft.

Office of Legal Compliance

We created the Office of Legal Compliance at Microsoft as a resource to enhance ethical business practices and our ability to comply with a wide range of legal obligations, and to help our employees and vendors understand their responsibilities under the law. We have established a com-

prehensive education and compliance assurance program at Microsoft, which addresses employment law, anti-discrimination statutes, privacy, civil rights, securities, international trade interactions, competition law, and many other areas.

Employees who need guidance about a business practice or compliance issue, or who wish to report a compliance concern, can call the Business Conduct Line at (877) 320-6738 or contact the director of compliance directly. Employees outside the United States can call the Business Conduct Line collect by accessing an international operator and asking to place a collect call to (704) 540-0139. Partners, customers, or others outside the company who have concerns about compliance or Microsoft business practices may report their concerns to the Office of Legal Compliance by calling the Business Conduct Line, e-mailing msft.buscond@alertline.com or buscond@microsoft.com, or sending a confidential fax to the director of compliance at (425) 705-2985. For more information, please visit www.microsoft.com/ mscorp/legal/buscond/.



Codes of Conduct

Microsoft's Standards of Business Conduct apply to all our employees, and set clear guidelines for them to follow when they are conducting business on behalf of the company. Every employee receives training to acquaint them with these standards and the company's high expectations.

We also have codes of professional conduct that apply specifically to employees who are engaged in certain types of business activities. For example, the Procurement Code of Professional Conduct applies to anyone at Microsoft who is involved in procurement or supply-chain management activities, such as negotiating contracts, managing vendor relationships, and monitoring service delivery.

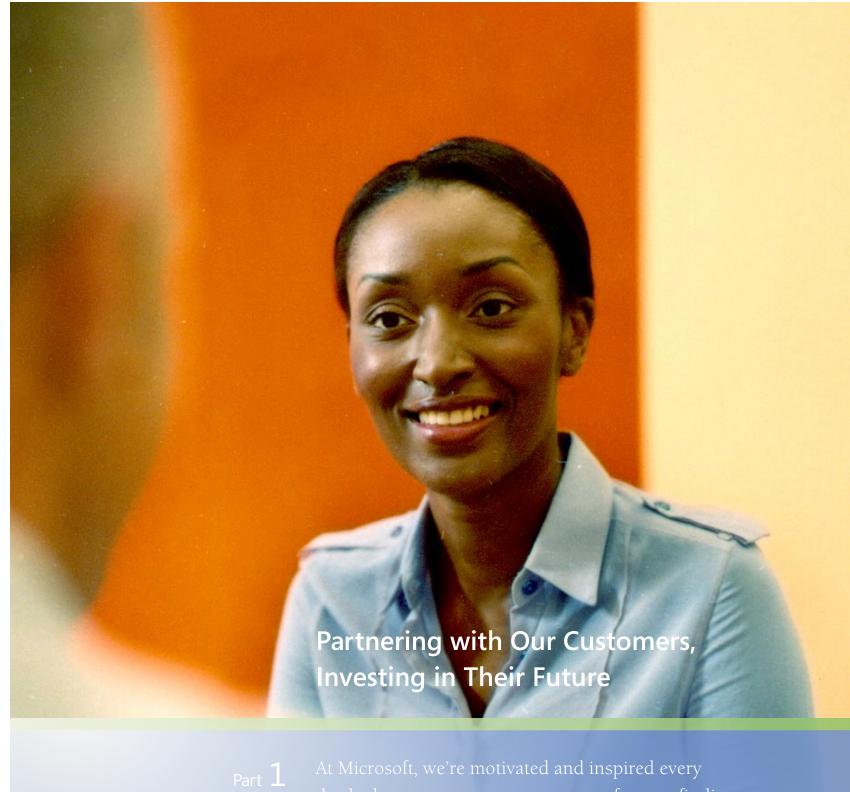
Another code of professional conduct applies to employees who work in Microsoft Finance and manage the company's financial affairs worldwide. Employees of our finance organization hold an important and elevated role in corporate governance, because they

are uniquely empowered to ensure that all stakeholders' interests are appropriately balanced, protected, and preserved. The Finance Code of Professional Conduct sets out principles and rules regarding individual and peer responsibilities, as well as responsibilities to fellow employees, the public, and other stakeholders. If you have a concern regarding a questionable accounting or auditing matter and wish to submit the concern confidentially or anonymously, you may do so by sending an e-mail, calling the Business Conduct Line, or sending a letter or fax to the director of compliance as outlined above.

Vendor Code of Conduct

As part of our commitment to provide a positive work environment at Microsoft, we require our vendors and their representatives to adhere to the same professional standards of behavior that we expect from our employees. The Microsoft Vendor Code of Conduct covers everything from harassment to the use of e-mail and online resources, and makes it clear that we expect our vendors to share our support of cultural and

ethnic diversity, and our equal opportunity employment policies. Partners, customers, or others outside the company who have concerns about Microsoft's procurement practices should contact the director of compliance. For information on our procurement practices and policies, please visit www.microsoft.com/ mscorp/procurement/process/ contracting.asp.



At Microsoft, we're motivated and inspired every day by how our customers use our software—finding creative solutions to business problems, developing breakthrough ideas, and staying connected to the people and information that are most important to them.

We are focused on delivering great value to our customers and giving them an outstanding customer experience, based on exceptional service and state-of-the-art technical support. Our ability to achieve this depends on how we interact and engage with our customers, how we team up with partners to deliver great solutions, and how well our business groups collaborate to provide software and solutions that help our customers realize their potential.

The key is to continually strengthen our relationships with customers from individual home users to the largest multinational corporationsand to ensure that their voices are heard and heeded in every aspect of our business.

Listening to Our Customers

Every year at Microsoft we conduct a comprehensive survey called the Microsoft Worldwide Customer and Partner Satisfaction Study. Our most recent study resulted in more than 30,000 completed customer and partner interviews in 70 locations around the world. As part of our commitment to be a highly customerfocused company, we make this information available to Microsoft employees worldwide through the Microsoft Customer Satisfaction Dashboard—a simple but powerful tool

"Microsoft is 100 percent committed to delivering new opportunities for our partners and enabling them to realize their potential. Our \$500 million investment in partner programs and services underscores our commitment to partner satisfaction, and our focus on delivering the strongest technology platform through Microsoft .NET and XML Web services."

Steve Ballmer, CEO, Microsoft Corporation

to help employees access customer satisfaction data and see for themselves what feedback our customers have on our products, services, and business policies.

The Microsoft Customer Satisfaction Dashboard is unique in our industry and an important breakthrough for our company, but it is only one part of our larger vision to bring the voices of our customers directly into Microsoft. In all of our contacts with customers—from sales and support services to focus groups and usability studies—we strive to strengthen the connection between our customers and employees. Our goal is make sure the feedback we hear from customers is factored into all of our products and programs, and into the business decisions we make every day.









Supporting Our Customers

Microsoft Product Support Services (PSS) provides worldwide customer service and technical support for Microsoft customers-from individual consumers to the largest multinational corporations. Support offerings include a vast array of self-help, assisted support, and managed support services to meet our customers' needs. We deploy approximately 9,000 support professionals around the world as part of our ongoing effort to reach more customers and keep our support teams close to them. PSS provides continuous technical support and customer service for more than 170 different products—24 hours a day, 365 days a year—and handles more than 6 million support cases every year via telephone, Web, and on-site contact.

Our support Web sites receive more than 200 million customer visits annually, and provide a rich set of selfhelp tools and content tailored to specific customer segments and needs.

Customer Feedback

Another way we are supporting customers is by using feedback to improve customer experiences with our new error reporting tools. This lets customers choose to send us an error report whenever anything goes wrong with a Microsoft application or operating system, which helps us gather real-world data about the causes of customers' problems. Error reporting is now built into Office, Windows, and most of our other major products.

One thing we've learned from these error reports is that about 20 percent of software bugs cause 80 percent of all errors. Even more incredible, 1 percent of the bugs cause half of all errors. Knowing this allows us to prioritize debugging work on our software to achieve the biggest improvements for customers in the least time.

Error reports help identify bugs not only in our own software, but also in Windows-based applications made by independent hardware and software vendors. About 450 companies have accessed our shared database for error reports related to their products, and are using that information to make dramatic improvements. We've also created software that enables corporate customers to redirect error reports to their own servers, so that administrators can find and resolve the problems that are having the greatest effect on their systems.

Our Commitment to Accessibility

One example of Microsoft listening and responding to customers is our longstanding commitment to developing accessible technology that creates new opportunities for people with disabilities. Microsoft is continually exploring and evolving accessibility solutions that are integrated with our products.

According to the United Nations, 10 percent of the world's population more than 600 million people—have some kind of disability. Whether those disabilities are as serious as amputation, blindness, deafness, or paralysis,

or as common as the inevitable changes in vision, hearing, and dexterity that come with age, they can have profound effects on a person's ability to live and work productively.

At Microsoft, our dedication to accessibility reaches back as far as 1988 and the launch of Windows 2.0. It continues today with the unique accessibility features built into Office XP and Windows XP. Since our initial involvement with accessibility issues, we have continued our dedication to improving the accessibility of our products and creating new and better technologies that everyone can use. Many technology features that were originally designed to assist people with disabilities-such as adjustable font sizes and audible alerts-can help others tailor their work environment to their particular preferences and needs.

Our Accessible Technology Group (ATG) has approximately 40 people working with product developers, assistive technology companies, and disability advocates to help ensure that people with disabilities can use software developed by Microsoft and other companies. The overall mission of ATG is to make accessibility an integral part of all Microsoft platforms, products, programs, and services. In addition, ATG increases awareness of what is possible today with accessible technology. ATG also manages the

"Microsoft Assistive Technology Vendor Program," which includes an online catalog that makes it easy for customers to locate and purchase Windows-compatible assistive technology products. To access the Assistive Technology Vendor Program online catalog, please visit www.microsoft.com/enable/at/ search.asp.

We also support many nonprofit organizations that work to increase education, training, and employment opportunities for people with disabilities. For example, we teamed with the American Association of People with Disabilities (AAPD) to establish the Federal Internship Program. In 2003 and 2004, this program will provide paid, IT-focused summer internships at U.S. government agencies for 25 college students with disabilities. A \$325,000 grant from Microsoft will provide each student with a stipend, free accessible housing and transportation, and any special worksite accommodations that may be necessary.





Case studies and other information are available at: www.microsoft.com/enable

"In less than 10 years technology will virtually eliminate most limitations people with disabilities face in the workplace and the classroom."

Steve Ballmer, CEO, Microsoft Corporation

Microsoft is also working on accessibility issues with the U.S. government and other technology industry leaders. For example, Section 508 of the Rehabilitation Act, which took effect in June 2001, requires all federal agencies to ensure that any electronic or information technology they develop, procure, maintain, or use is accessible to people with disabilities. Microsoft is fully engaged in Section 508, working closely with federal IT managers and industry leaders to help government agencies comply with the new regulations, and providing the tools other companies need to develop accessible technologies that meet the federal standards.

We have received numerous awards for the accessibility of Microsoft products and our work on accessibility issues, including:

- The World Blind Union's Louis Braille Gold Medal, for Microsoft Canada's contribution to helping develop a digital library system for the Canadian National Institute for the Blind
- WE Magazine's Golden Ladder Award, for hiring and accommodating people with disabilities, and for our continued commitment to creating accessible technologies
- The Ron Mace "Designing for the 21st Century" Award, for making Windows and our other software accessible to the broadest range of customers, including people with disabilities

 The Disability Rights Advocates "Eagle" Award, for spearheading the "Able to Work" Program, which endeavors to employ increasing numbers of people with disabilities

The real value of accessibility is reflected in the way thousands of people with disabilities have used technology to change their lives for the betterone of the clearest examples of how technology can empower people to realize their potential. For example:

 Glenn Higgins has been quadriplegic since he was 17, when he was injured in a wrestling accident. Today, 37 years later, he holds a Ph.D. in neuropsychology and serves as vice president and medical director for UnumProvident, a \$9.6 billion provider of disability insurance. Dr. Higgins succeeds in his high-level job through a combination of talent, hard work, and technology. His tools include a personal computer equipped with speech-recognition software and a puff-stick, which resembles a drinking straw but operates like a mouse when he blows into it.

- Sebastiaan Hermans is training to be a judge in the Netherlands court system. The intense six-year program of study and supervised practice requires an enormous amount of reading, writing, and note-taking. Hermans, who was visually impaired at an early age, keeps up with the rigorous demands of his training by using a screen reader that combines speech, Braille integrated magnification, a variety of other assistive technologies, and compatible software from Microsoft.
- Rick Burgos is a good listener even though he has an 80-percent hearing loss. As an advisory support specialist in a global customer support center for a major computer manufacturer, listening is a crucial part of his job. He facilitates this with a range of Microsoft products, plus a wireless microphone, amplifier, and headset.

Trustworthy Computing

The Internet has become an increasingly powerful tool for business and communication, but it has also created new security risks that can threaten the confidentiality, integrity, and availability of data and systems.

As a leader in the computing industry, Microsoft has a responsibility to help its customers address these concerns. In 2002, we set out to build a Trustworthy Computing environment for our customers, to make computing as reliable as possible. To meet our goal of creating products that combine the best of innovation and predictability, we are focusing on four specific areas: security, privacy, reliability, and business integrity. This is a long-term effort, but we have already made significant progress. Our continued work on security serves as an example of our commitment to this initiative.

Based on discussions with customers and our own internal reviews, it was clear that we needed to create a framework that would support the kind of innovation, state-of-the-art processes, and cultural shifts necessary to make a fundamental advance in the security of our software products. In the past year we have created new product-design methodologies, coding practices, test procedures, securityincident handling, and product-support processes that meet the objectives of this security framework.

In early 2002 we took the unprecedented step of stopping the development work of some 8,500 Windows engineers while the company conducted 10 weeks of intensive security training, analyzed the Windows code base, and instituted a threat-modeling process that taught program managers, architects, and testers to think like software attackers. Half of all the bugs



identified during the Windows security push were found during threat analysis. We have now carried out major security pushes in all of our key product groups.

In the past, a product feature was typically enabled by default if there was any possibility that a customer might want to use it. Today, the most secure option is usually the product default setting, which means that most features are now turned off by default to help prevent them from being used as a potential back door for attackers. To help customers deploy and maintain our products securely, we have also updated and expanded our security tools.







Protecting Your Privacy

At Microsoft, we are committed to helping you protect your privacy and personal information, and to developing technologies that enhance the safety and security of your computing experience. In June 2003, *Computerworld* ranked Microsoft as one of the top 10 privacy leaders among Fortune 100 companies, which the magazine defined as "companies that have taken the most steps indicating a long-term, strategic commitment to data privacy."

Microsoft offers a wide variety of products, Web sites, and services. Many of these have their own privacy statements that describe exactly how they collect and use information. We strongly encourage you to review the specific privacy statements that apply to your interaction with our company.

As a sign of our commitment to helping protect consumer privacy, Microsoft is a participant in the Safe Harbor Agreement between the United States and the European Union, and follows

the Safe Harbor principles published by the U.S. Department of Commerce.

Microsoft adheres to two overarching privacy principles:

- Microsoft will not transfer your personal information to third parties without your consent.
- We believe that you should be able to exercise control over how your personal information will be used. We also believe that you should be able to access the personal information you have provided, so that you can update, correct, or amend the data.

Keeping Your Personal Information Secure

Microsoft is committed to keeping your personal information secure. We use a variety of advanced security technologies and procedures to help protect your personal information from unauthorized access, use, or disclosure. For example, we store the personal information you provide on computer servers located in controlled facilities. When we transmit sensitive personal information (such as a credit card number) over the Internet, we shield it with advanced encryption, such as the Secure Sockets Layer (SSL) protocol.

Microsoft and Public Policy

Some problems that affect our customers are simply too big or too complex for one company to solve alone. Because of Microsoft's position as a global technology and business leader, we are increasingly involved in alliances with industry colleagues and government agencies that are attempting to find solutions to some of the most difficult challenges facing businesses and consumers today.

Identity Theft

Identity theft occurs when criminals illegally gain access to a consumer's personal information, make unauthorized purchases in their name, or divert funds from their bank accounts. In addition to causing financial and emotional trauma, identity theft may have a chilling effect on electronic commerce if consumers grow fearful that their identities may be stolen during online transactions. Microsoft is working with other industry leaders, legislators, and law enforcement officials to prevent and prosecute identity theft.

"Microsoft has a responsibility, as a corporate citizen, to participate in the global dialogue on public policy issues."

Pamela Passman, Deputy General Counsel, Corporate and Regulatory Affairs, Microsoft Corporation

Spam

Unsolicited commercial e-mail, or spam, is a growing problem. Several billion junk e-mails—many of them deceptive or pornographic—are sent over the Internet every day, frustrating consumers and law enforcement officials alike. Thanks to technology such as MSN 8 from Microsoft, the spam that lands in inboxes today is a fraction of all that is sent. At MSN, messages are filtered twice, first by filters on e-mail servers and then again as subscribers use MSN 8 software. The MSN 8 filter becomes more effective as it learns the characteristics of mail that a subscriber designates as junk.

Intellectual Property

Around the world, copyright and patent laws play a central role in fostering a diversity of cultural resources, and in promoting technological advances and economic growth. These laws are more important than ever in a global economy.

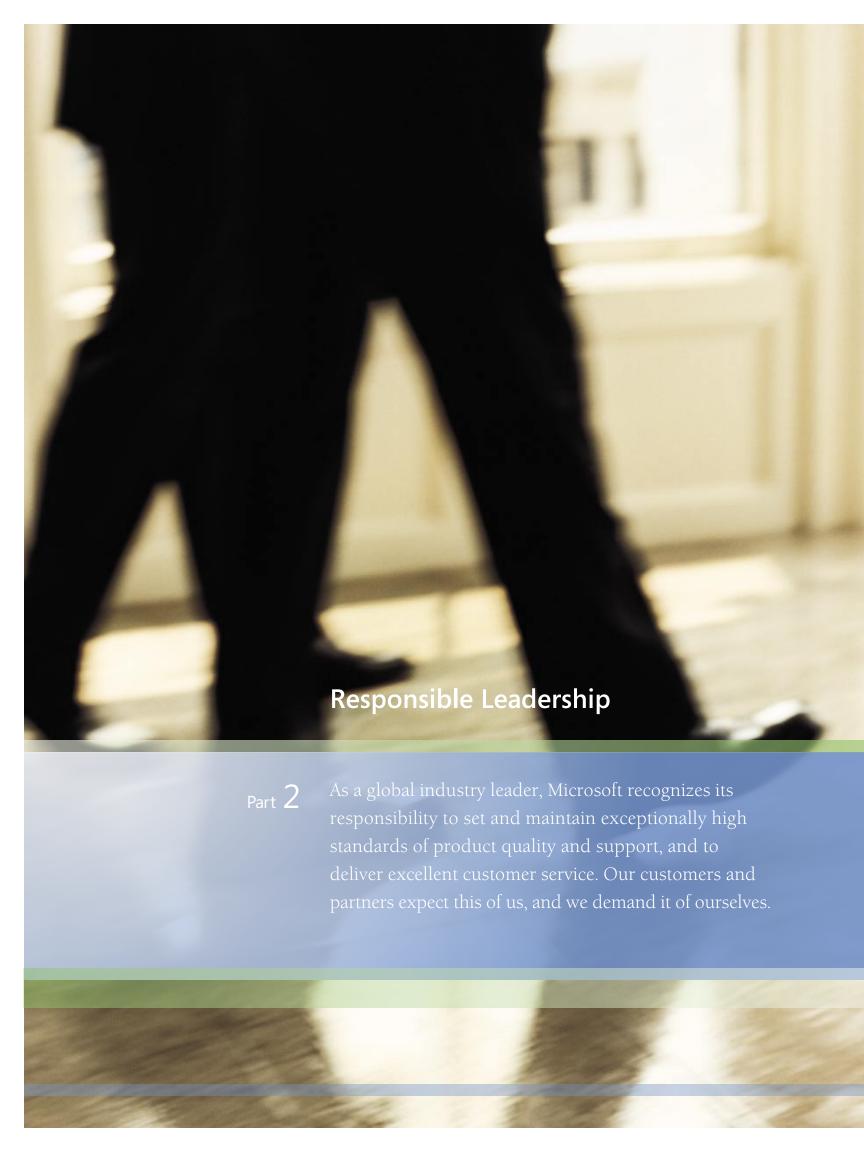
Since its inception, the world's information technology sector has relied on strong intellectual property protection as the basis for creating sustainable and innovative businesses. The IT industry's reliance on such protection is not unique. In fact, the industry shares a lot in common with other research-intensive industries, such as the consumer electronics, automotive, pharmaceutical, and biotechnology industries. The fact that the IT industry creates digital goods, which are more susceptible to copying, makes intellectual property laws particularly important in this sector.

International treaties and national laws generally provide a solid foundation for the protection of intellectual property. High levels of piracy continue to exist in many areas, however, because those laws are not adequately enforced. The software industry alone loses \$11 billion annually to piracy. Microsoft works with industry and governments worldwide to promote understanding of the importance of intellectual property laws and their improved enforcement.

Digital Rights Management

Consumers are eager to access entertainment products and other digital content over the Internet, but producers of that content are understandably concerned about its susceptibility to piracy. Microsoft continues to be a

leader in developing new digital rights management (DRM) technologies that can be used to deliver digital content and safeguard it against unauthorized use. Typically, DRM encrypts digital content and limits access to people who have acquired a proper license to play that content. In addition to creating our own DRM system for Windows Media. Player and integrating those features into Windows Server 2003 and the new version of Office, Microsoft is working with other industry leaders to promote a more secure online environment that will encourage content owners to make more available and provide consumers with exciting new choices.



We're finding new and creative ways to support industry cooperation, especially around technology standards like XML (eXtensible Markup Language), which has become the new lingua franca for how computers talk to each other. And we're collaborating more closely than ever with others in our industry, including our competitors, to enhance those standards so that everyone can use them to create innovative, easy-to-use software. For example, last year Microsoft and a broad coalition of other industry leaders formed the Web Services Interoperability (WS-I) Organization to promote Web services interoperability across a variety of platforms, operating systems, and programming languages. To learn more about WS-I, please visit www.ws-i.org.

As part of our renewed commitment to our customers, partners, and developers, we have built new leadership teams for each of our businesses and increased leadership accountability throughout our company, while also expanding and nurturing our next generation of leaders. Along with creating this new management structure at Microsoft, we reaffirmed our core values and made living up to them a part of every employee's performance review.

"At the end of the day, our job is not done unless we have provided great opportunities for others to build world-class software, and helped make them successful in building it."

Eric Rudder, Senior Vice President, Servers and Tools, Microsoft Corporation

We're doing more industry outreach, forming more alliances, and working more closely with governments. Emerging problems like security and identity theft are too big and complex for either industry or government to solve alone. We need more public/ private alliances to address these challenges, which will help the technology industry to continue to drive global economic growth.

It comes down to this: Microsoft is totally committed to working with our partners and developers to provide innovative technologies that will continue to empower people worldwide and transform the way we live, work, and learn

Creating New Opportunity for Developers and Partners

Developers are the foundation of our business-our most critical audience and our greatest asset.

Microsoft has always had a healthy, interdependent relationship with software developers. Our first products were PC programming languages, so we have deep roots in the developer community. From the beginning, the idea behind the Microsoft business model has been that we ensure our own success by attracting developers to our platform and doing whatever we can to help them succeed.

The success of Windows is due in no small part to the creativity and innovation of developers who write programs that run on the Windows platform. Our ability to attract developers can be attributed largely to our decision to make our application programming interfaces (APIs) available to all developers, even potential competitors. Our open-API model allows developers to call features of the Windows operating system into their own programs, which eliminates the need to create those features from scratch, saves time and money, and makes their applications run efficiently.

As a result of these APIs, plus the tools and support we provide, more developers—approximately 7 million worldwide-write software for the Windows platform, which in turn makes it the most compelling platform for users. Today, using XML and Microsoft .NET technologies, we're making it just as easy for developers to write rich, interconnected Web services as it is to write traditional applications and Web sites—a change that is creating exciting new opportunities for developers.







Microsoft also has a longstanding, unwavering commitment to our partners. Our products and solutions have always been sold and deployed through partner channels, and we have never strayed from our promise to enable our partners to develop, sell, and support great technology solutions.

Microsoft partners with roughly 750,000 companies worldwide, and more than 350,000 of those are outside the United States. This affiliation helps our partners increase revenues, lower costs, bring new products to market faster, and improve their recognition in the marketplace by linking their own products with the Microsoft brand. According to International Data Corporation (IDC) data and Microsoft revenue figures, for every \$1 Microsoft earned in 2001, our partners generated \$8 in revenue.

A strong partner model will be even more critical in the times ahead. To realize new growth opportunities, we need to look at how our technology can enable businesses to become more agile. How we enable business agility will vary dramatically from one customer to another, and determining individual business needs is where our partners play a critical role. Microsoft can only succeed in this if our partners are successful, too.

To ensure this, we must provide the tools, training, and resources partners need, and keep communication flowing consistently in both directions. Microsoft is developing innovative new programs to help our partners succeed, and we're making major end-to-end investments inside the company to create a framework that will enable our partner ecosystem to remain strong and vibrant.

Microsoft and Innovation

We live in an age where changes in computer technology are leading to increasingly dramatic innovations in the way we use computers and how technology enhances our daily lives. Breakthroughs in computing have led to exponential growth in processing power, graphics, storage, networking, and other areas, with capacity often doubling or quadrupling in a few months to a year. These technological advances have made possible a proliferation of new devices-digital cameras, Tablet PCs, Pocket PCs, and Smartphones-that offer new ways for us to stay connected.

In 1991, Microsoft recognized the approaching technology revolution and saw an opportunity to lead it. Microsoft made a strong commitment to basic computer science research by establishing the first software-company research lab, and the company continues to invest heavily in research. In fiscal year 2003, Microsoft invested \$4.7 billion in research and development (R&D).

Today, Microsoft Research (MSR) is responsible for new technologies that have found their way into numerous products, but its primary focus is on finding answers to some of computer science's most vexing questions. How can computers be made to understand the nuances and diversity of human speech? What does it mean to recognize a face, and how can a machine be trained to do it? What new tools can be created to revolutionize the software development process?

As the pace of technological change accelerates, companies face a growing dilemma. Product life cycles are shrinking as never before—more than half the revenues of America's leading technology companies now come from products developed during the previous five years, up from about a third in 1992. This creates enormous pressure for rapid returns from product development, and can make long-term research seem secondary to research that will pay off in the next business quarter.

But if companies are to thrive beyond the next quarter and really help shape the future, they must constantly replenish their long-term reserves of intellectual capital. Research has never been more important.

Industry Leadership through Innovation

MSR is a world-class research organization dedicated to fostering software innovation, inventing the next generation of computing technologies, and finding answers to the greatest challenges in computing. At its research labs in Europe, Asia, and North America, MSR employs 700 researchers in 55 distinct areas of computer science, from artificial intelligence to data mining.

Thanks to MSR breakthroughs in areas such as programming, multimedia, and database management, Microsoft is viewed as a leader in the research community. Several Microsoft researchers are members of the National Academy of Engineering, some have received an Academy Award for technical achievement, and in Britain one of our researchers was honored with a knighthood. Other prestigious honors received by our researchers include:

- Turing Award of the Association for Computing Machinery
- National Medal of Technology
- Kyoto Prize in Advanced Technology
- Fields Medal of the International Mathematical Union

The quality of the work being done by Microsoft researchers is evident from their presence at many leading research conferences. For example, MSR accounted for 13 percent of peerreviewed papers presented at the CHI





2001 Conference on Human
Factors in Computing Systems, and
30 percent of papers at the 2001
Programming Language Design and
Implementation conference on
programming languages. Microsoft
researchers have also contributed
thousands of articles to prominent
technical journals.

Making Dreams Real

At its heart, MSR has two goals: driving innovations that can change the industry in areas such as natural language research and programmer productivity, and transferring those innovations from the lab into the hands of users. Today, MSR's work can be found in virtually every Microsoft product. For example:

- Tablet PC Handwriting-recognition technology that converts handwriting to digital text, digital ink technology that enables users to write on the Tablet as they would on paper, and ClearType® font technology that makes it easier to read on-screen text
- MSN 8 Spam control filters that offer a vast improvement over previous versions and enable the industry's best tools to combat spam
- Windows XP Advanced multimedia technologies that enable more secure, reliable streaming transmissions and audio quality, improved search capabilities, and encryption and anti-piracy tools that make
 Windows XP the most secure
 Microsoft operating system to date

Smart Personal Objects Technology
 (SPOT) — Smart technology that
 makes everyday devices such as
 watches, key chains, and alarm clocks
 more useful by enabling them to
 deliver a wide range of personalized
 information, such as news, traffic
 reports, stock quotes, weather information, and instant messages

Microsoft Research University Relations

Microsoft Research University Relations is committed to supporting all aspects of the worldwide university computing environment. Its mission is to build world-class relationships with key universities, government agencies, and industry partners that enhance the teaching and learning experience, inspire innovation, and establish Microsoft as a leading technology partner for higher education.

We take our responsibility to the international academic community very seriously. We contribute more than \$75 million a year in cash and software to academic institutions around the world, and we're making more software available for teaching and research. For example, last year we announced an academic version of Visual Studio. NET to make it easy for university faculty and students to begin using Microsoft .NET technologies

in the classroom. We also partner globally with academic institutions on curriculum development.

Each year, we host faculty summits at Microsoft, bringing together hundreds of faculty members from all over the world. It's a chance for us to hear what's going on across the academic research community, to learn how we can help and participate, and to show educators and researchers what we're working on.

Supporting Open Standards

As an industry leader, Microsoft is committed to working with other companies and independent standards bodies to develop open technology standards that enable interoperability. The fundamental purpose of open standards is to promote interoperability across diverse hardware and software products, and to spark competition and innovation among vendors who want to differentiate their implementations of the standards.

Open standards are established through a consensus-based process. The main function of an independent standards body is to provide the forum in which consensus can be

reached on specific issues and uniform technical specifications can be established. The open standards process is neutral concerning software development, welcoming all and favoring none in its quest for the best interoperability solutions.

Microsoft participates actively as a member of numerous international standards organizations, and frequently contributes directly to the development of individual standards. Among the most familiar standards bodies with which we work are the Internet Engineering Task Force (IETF), the World Wide Web Consortium (W3C), and the European Telecommunications Standards Institute (ETSI).

Microsoft has been instrumental in creating, supporting, and promoting open standards such as XML, SOAP (Simple Object Access Protocol), and UDDI (Universal Description, Discovery, and Integration). Each of these plays a key role in lowering the cost and complexity of sharing data over networks and across applications.

Commercial software developers, who rely on the sale of software licenses for most of their revenue, devote substantial resources to developing software that is standards-compliant and interoperable. The reason is simple: the extent to which software interoperates with various hardware devices and other software influences customer demand for that product.

We're Just Getting Started

This first decade of the 21st century, a time Bill Gates has called the "Digital Decade," holds immense promise.

We believe that computers powered by advanced software will make Internet-based computing and communications easier, more personalized, and more productive for individuals and businesses around the world. We envision smart software continuing to weave technology into the fabric of our everyday lives-keeping us connected to the people and information that are meaningful to us. And we know that we will continue to be motivated and inspired by how innovative software empowers people worldwide to change their lives.

Our dedication to constant innovation is reflected in our ongoing commitment to research and development. Over the past 10 years, we have invested more than \$23 billion in researching and developing innovative solutions to the technology problems of today and tomorrow-in solving the hard problems our customers are asking us to solve. It's our belief that the true measure of our success is not in the power of our software, but in the potential it unleashes in the people who use it.



Part 3

At Microsoft, we know that amazing things happen when people have access to the right resources to help them pursue their dreams. We've seen it again and again as our company, our software, and our employees have made a lasting difference in hundreds of communities and thousands of lives around the world.

Microsoft is a neighbor in more than 80 countries and in nearly every U.S. state and territory. Being good neighbors and contributing to the communities where we live and work is a fundamental part of the Microsoft culture. In fiscal year 2002 alone, Microsoft gave nearly \$40 million in cash and \$207 million in software to more than 5,000 nonprofit organizations that work to improve lives, build technology skills, and strengthen communities worldwide.

Part of our ongoing commitment to the many communities where we do business is to partner with nonprofit organizations that work with underserved people and communities-sharing resources, innovative technology and ideas that can help counter the world's most serious problems, awaken people to their own potential, and empower them to achieve it.

"The Club Tech program with Microsoft is making possible the most significant innovations, improvements, and programs in our history."

Roxanne Spillett, President, Boys & Girls Clubs of America

Microsoft Global **Community Affairs**

In 1983, Microsoft established one of the first corporate giving programs in the high-tech industry. Today, we have been recognized as one of the top contributors in the technology sector, and one of the five largest contributors among all businesses in the United States. At Microsoft, we aim our giving programs at the heart of serious challenges.

- In the United States, we have worked in partnership with Boys & Girls Clubs of America to develop Club Tech. Together we are bringing technology access and skills to children at all 2,600 clubs in communities throughout the United States, and at U.S. government facilities in other countries.
- Along with contributions to many individual organizations, we provided the primary support to create NPower, a national U.S. network of community-based groups that works with nonprofits to develop affordable technology solutions. For instance, one NPower project uses the Internet to link a community's resources for the deaf, so that each request can be quickly matched to an available interpreter. As a result, information once placed on index cards is now accessible to all staff at any time.



Following the successful establishment of a Microsoft Electronic Library (MEL) in Jordan, Microsoft Lebanon went one step further and created a mobile MEL, an electronic library in a bus. The mobile MEL can be driven throughout rural Lebanon, bringing computer access and information to a broad group of people. This new MEL not only provides technology access, it also serves as a mobile classroom and learning center, as well as a way to promote computer awareness in remote communities. The bus targets particularly underserved communities within Lebanon, and focuses on providing access and skills training for those who may not have regular access to technology. "Mercy Corps works in places that are often technologically primitive. Software from Microsoft provides Mercy Corps with the critical building blocks from which field staff can develop innovative technical solutions to local problems. That means we can help more people more effectively and efficiently."

Peter Dickinson, Director of Information Technology, Mercy Corps

A Hand Up

A few years ago, Sheila Williams was raising three young sons as a single mother and trying to make ends meet by working part-time in a low-wage customer service job. Determined to break out of poverty, Sheila registered for classes at Metropolitan Community College (MCC) in Omaha, Nebraska.

At MCC, she heard about a program called Working Connections, an alliance between Microsoft and the American Association of Community Colleges that addresses the acute shortage of information technology (IT) workers by helping people from disadvantaged backgrounds and underserved populations prepare for IT jobs. Sheila took the training and landed a job as a customer service analyst for an Internet company in Omaha, at a starting salary that doubled her previous income.

- Microsoft works closely with international organizations such as
 the World Food Programme, Save
 the Children, and Mercy Corps to
 provide technology-based development assistance through the HEART
 (Humanitarian Empowerment
 and Response through Technology)
 program. More and more, global
 organizations rely on technology
 to improve the effectiveness of
 their humanitarian efforts around
 the world.
- eElder in Japan is a program that offers thousands of often isolated senior citizens an opportunity to use technology and learn IT skills, making them part of the digital age.
- In the Czech Republic, Microsoft is supporting a program designed to provide people with disabilities IT training that is tailored to their individual needs, helping them to secure jobs in the high-tech industry.

Our goal is to truly empower people and communities, by making sure they have the tools, skills, and resources to overcome not only today's challenges, but also those that will arise in the future.

Microsoft Employee Giving

In the United States, Microsoft matches each employee's donation dollar-fordollar up to \$12,000 annually, which gives them the opportunity to direct corporate contributions to thousands of nonprofit organizations. In fiscal year 2002, Microsoft employee donations and matching corporate funds totaled more than \$28.5 million in cash in the United States alone.

At Microsoft, we've always believed in sharing our success. Our giving efforts—as a company and as individuals—are part of how we help support and strengthen our communities every day.

Unlimited Potential

Technology is a potent force that can empower millions of people to reach their goals and realize their dreamsbut for many people around the world, the "Digital Divide" keeps that power out of reach. In many developing countries, for example, less than 1 percent of the population has Internet access. In some of the poorest countries, the cost of establishing an Internet connection could feed a family for a year. Access to technology is only part of the answer, however. It is equally critical to provide IT skills training and guidance to help people discover what technology can do for them, and what they can do with technology.

In 2003, Microsoft refocused its giving initiatives to promote computer literacy and foster lifelong learning among underserved young people and adults worldwide. Our goal with this program, called Unlimited Potential (UP), is to go beyond merely providing access to technology, by combining enhanced access with much-needed curriculum and the development of IT skills that people need to transform technology into powerful tools for change. UP

achieves its goal in three ways: First, we support existing learning centers—such as libraries, schools, and community centers-where people already gather to gain skills, share information, and use technology. Second, we offer those locations ongoing access to a rich set of resources that can help them become sustainable technology-enabled centers of lifelong learning and collaboration. Finally, through a program of cash awards and recognition, we support scalable technology solutions that provide social benefits in communities worldwide.

By focusing our resources on Microsoft UP, we hope to empower many of the world's disadvantaged people to help themselves, strengthen their communities, and improve their local economies.











Partners in Learning

By partnering with governments around the world, Microsoft is offering a spectrum of education resources—tools, programs, and practices—to empower students and teachers to realize their full potential. The essential premise of this ambitious five-year undertaking is simple, yet compelling: education changes lives, families, communities and, ultimately, nations. Microsoft is focusing global resources—people, partnerships, services, philanthropy, and products—to increase access to technology and technology education.

The Partners in Learning initiative includes three distinct yet integrated core programs, each of which can be implemented in the participating countries based on economic and educational objectives as well as cultural preferences. The programs are:

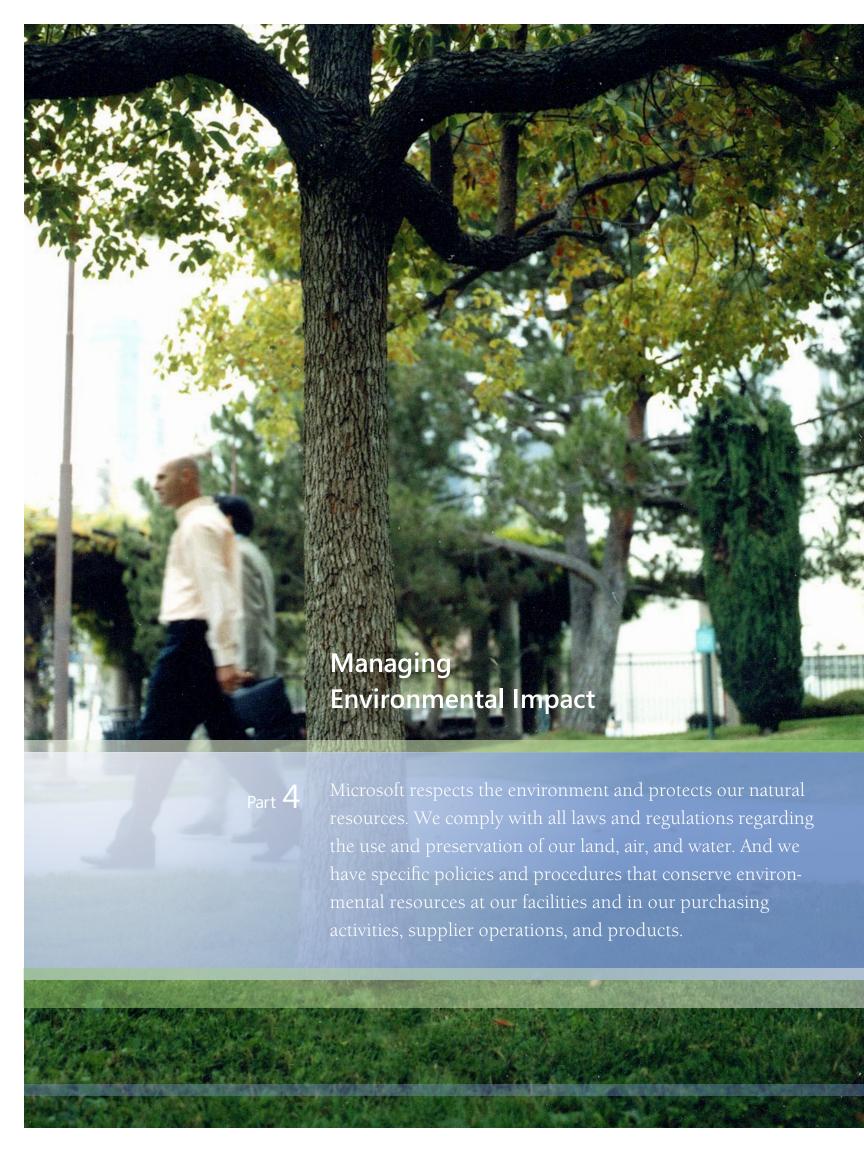
- Partners in Learning Fresh Start for Donated PCs — Computers that are donated to schools often lack original documentation for the installed operating system. To remove licensing barriers that prevent schools from using donated computers, Fresh Start will provide primary and secondary schools with a licensed copy of Windows 98 and/or Windows 2000 for donated machines when original documentation is not available.
- Partners in Learning: School Agreement
 Microsoft School Agreement
 Subscription makes Microsoft's core educational tools more affordable to primary and secondary schools in all countries worldwide through deeply discounted pricing. Schools with the greatest economic needs can acquire Windows XP Professional Upgrade and Office XP Professional at dramatically lower pricing.
- Partners in Learning Grants —
 Learning grants provide cash investments over five years to help schools take advantage of their technology investments by developing school leader and teacher skills, student certification, courseware, content, and research. Funding will support the establishment of local Microsoft IT Academy Centers through alliances

with local community organizations, education institutions, and training providers. The Centers will train educators, build communities, and deliver locally tailored curriculum and certifications. In addition, learning grants will provide incentives for teacher and student participation, recognition programs for schools, and digital literacy assessments to encourage and reward participation.

The MAR program donates software licenses through nonprofit refurbishers, enabling schools and charities to take full advantage of personal computers they receive from donors. Before Microsoft established the program, many of those donated machines lacked installed operating systems.

Microsoft Authorized Recycling

Through a program called Microsoft Authorized Recycling (MAR), we help facilitate the refurbishing and recycling of thousands of PCs every year so that they can be donated to K-12 schools and nonprofit organizations. U.S. corporations and the federal government retire more than 13 million personal computers annually a number that is growing rapidly. Approximately 20 percent (or 2.5 million) of these machines are donated to schools and charity organizations.



Recycling and Conservation at Our Facilities

Microsoft has several programs in place at our facilities that allow us to significantly reduce waste and conserve resources. Examples include:

- Each day at our corporate campus in Redmond, Washington, we recycle an average of 24 tons of material: glass, plastic, aluminum, cardboard, paper, organic waste, wood pallets, and copper wire cabling. To date, paper and cardboard recycling at Microsoft has saved more than 26,000 trees.
- Recycling containers for paper, aluminum cans, and polystyrene are conveniently located for employees throughout our facilities. As a result of this and other programs, we're able to recycle 36 percent of our solid waste. In fiscal year 2001, employees at our Seattle-area facilities alone reduced waste by more than 70 percent, recycling and reusing more than 7,060 tons of material that otherwise would have ended up as landfill.

When new construction threatened to encroach on an area of wetlands, Microsoft responded by enhancing the site and making it publicly accessible as a habitat interpretive center. After initial restoration, the company donated part of the wetlands to the city of Redmond as an interpretive park, which local schoolchildren now use as part of their environmental curriculum.

- We work with a contractor to recycle our old PCs, monitors, servers, and other surplus technology from our office facilities. This ensures that our surplus equipment is recovered or recycled at an environmentally compliant facility. Approximately 90,000 technology assets are processed each year, representing 2,100 tons of equipment sold or demanufactured that did not end up in landfills enough to fill more than 1,000 semitrailer trucks.
- An advanced irrigation management system at our corporate campus automatically senses weather conditions and replenishes the right amount of water, which saves approximately 11 million gallons of water annually. This conservation activity supports other uses for water resources in our area, such as water for salmon in our local rivers.









 Microsoft has made energy conservation a priority, both in new construction and in renovations of existing buildings, investing in construction methods that provide long-term energy savings. Conservation methods implemented recently during construction of buildings on our corporate campus - from efficient lighting that consumes 40 percent less energy to adjustable-speed motors for our heating, ventilation, and airconditioning systems — will result in electric energy savings of 2.5 million kWh each year. Over the past two years, we have reduced per-employee energy consumption at our Seattlearea facilities by nearly 10 percent.

Purchasing, Packaging, and Products

At Microsoft, we follow strict policies to ensure that we remain in full compliance with international environmental regulations and the environmental requirements of each country where we do business. All Microsoft divisions have specific responsibilities for compliance, as do our vendors.

We extend our environmental efforts by the use of recycled office products, as well as recycled paper in Microsoft brochures, software manuals, and other publications. We also purchase and use many new products that contain recycled content. Our environmental principles are an important component of our buying decisions, and we believe the same is true for our customers.

Packaging for our hardware and software products is also designed to reduce environmental impact, including the elimination of plastic shrink-wrap

"As a global corporate citizen, Microsoft recognizes its environmental responsibility. Through our business operations, products, and partnerships we are continuing to work to help promote long-term sustainability of the global environment."

Joe Johnson, Environmental Regulatory Manager, Microsoft Corporation

from Microsoft packages and software manuals, promoting the use of compact discs (CDs) for computer programs, and using online paperless manuals. We also prohibit the use of old-growth trees in our packaging.

We design our products, both software and hardware, to comply with worldwide environmental regulations. For example, we use no heavy metals, such as lead and cadmium, in the packaging or plastics of any Microsoft products. Our hardware products are designed with consideration of the environment in mind, and we restrict the use of toxic substances in manufacturing operations. Microsoft contracts out for manufacturing throughout the world, and we encourage our vendors to follow good environmental practices.



Part 5 We employ more than 54,000 people in over 80 countries. Our employees come from diverse backgrounds, but they share a common passion for exploring new ideas, overcoming challenges, and creating innovative software that can empower people to change their lives.

Equal Employment, Anti-harassment, and Anti-discrimination Policies

Microsoft is committed to a policy of providing equal employment opportunity to all qualified employees and applicants. This commitment is reflected in all aspects of our daily operations. We do not discriminate on the basis of race, color, sex, sexual orientation, religion, national origin, marital status, age, disability, or veteran status in any personnel practice, including recruitment, hiring, training, compensation, promotion, and discipline.

We prohibit harassment, discrimination, retaliation, or intimidation on the basis of race, color, sex, sexual orientation, religion, national origin, marital status, age, disability, or veteran status toward another employee or any other person (including an agency temporary, independent contractor, vendor, or supplier).



Microsoft Employee **Development and Support**

We strive to provide our employees with the skills, tools, and experiences that will enable them to unleash their talents and capabilities. Professional development is an ongoing part of every employee's experience at Microsoft. It includes mentoring, training, online tools and resources, and special programs to develop managers and our next generation of leaders.

We also recognize the importance of personal and family support in our employees' lives, and we offer opportunities for employees and their families to socialize and enjoy a wide variety of community events. We designed our benefits plan to keep our employees healthy, happy, and moving ahead in their careers. We provide a range of healthcare options, personal and professional resources, and financial incentives.

Our Commitment to Diversity

Microsoft has established a number of initiatives to ensure that diversity is an integral and valued part of our company at every level, and to demonstrate this commitment locally, nationally, and globally. For example:



 Diversity Recruitment — We are committed to creating a workforce that reflects the global marketplace. In the past six years, we have spent more than \$125 million to reach this goal. Our recruiting efforts, in partnership with 33 historically diverse colleges, encourage underrepresented minorities and women to become the next generation of technology leaders. Since 1997, Microsoft has given cash and software in support of organizations such as the United Negro College Fund, Native American Colleges and Universities, Hispanic Scholarship Fund, American Association of People with Disabilities,





"Diversity is important not only because it enriches the workplace and enhances the lives of our employees, but also because it enables Microsoft to better serve the needs of customers and communities."

Steve Ballmer, CEO, Microsoft Corporation

- and others that serve diverse populations. We awarded scholarships totaling \$540,000 to students traditionally underrepresented in computer science and related disciplines in the 2002–2003 academic year, and supported more than 19 premier recruitment events geared for candidates who were African American, Hispanic, Native American, women, or people with disabilities.
- Diversity Outreach Over the past five years our efforts, in partnership with universities such as Xavier, Howard, Texas at El Paso, the University of Puerto Rico, and other education-oriented organizations, have ensured that women, students with disabilities, and students of color have access to experiences and opportunities that yield personal and professional growth. Through an investment of more than \$3.5 million, we have participated in conferences and career fairs, facilitated workshops, and supported the annual events of our partner minority and women's professional organizations.
- Support for Disability In addition to our recruiting efforts, Microsoft has contributed \$5.5 million to organizations that support people with disabilities. We wholeheartedly support the spirit of the Americans with Disabilities Act, providing grants to programs that address the technology needs of the disability community,

- or use technology to increase employment opportunities for people with disabilities.
- Diversity Education Programs Microsoft's diversity education programs provide our workforce with the tools and resources they need to ensure we take advantage of our employees' differing backgrounds, work styles, and viewpoints.
- Minority- and Women-Owned **Businesses** — Microsoft sponsors a variety of programs designed to help minority- and women-owned businesses succeed. Since its inception, the national award-winning Build Your Business Tour has provided, at no cost, educational technology seminars to the owners of more than 10,000 minority- and women-owned small businesses, while our supplier diversity effort is designed to encourage greater minority participation in the IT industry, through both increased procurement and direct investment.

At Microsoft, our commitment to diversity goes beyond recruiting and employing a diverse workforce. It's a vital component of our ongoing mission: to enable people and businesses throughout the world to realize their full potential.

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