Dear shareholders, customers, partners and employees:

Thank you for your support and investment in Microsoft. We’re proud of our progress this year, and we are eager to make even more progress in the year ahead.

We continue to be guided by our mission to **empower every person and every organization on the planet to achieve more**. The breadth and depth of our mission unlocks unprecedented opportunity as technology transforms every industry and has the power to make a difference in the lives of everyone. We strive to create local opportunity, growth and impact in every community and country around the world. Our platforms and tools enable creativity in all of us, and help drive small-business productivity, large business competitiveness and public-sector efficiency. They also support new startups, improve educational and health outcomes, and empower human ingenuity. Our sense of purpose lies in our customers’ success.

Now let me share more about what we delivered in fiscal 2017 for our shareholders, our customers and partners, and for the communities in which we operate throughout the world.

**PROGRESS AND OUR RESULTS**

We delivered $90.0 billion in revenue and $22.3 billion in operating income this past fiscal year. Adjusting for Windows 10 revenue deferrals and restructuring expenses, revenue was $96.7 billion with $29.3 billion in operating income.

We continued to invest in innovation and expand our market opportunities, while maintaining our commitment to shareholder return, which included total cash return of $22.3 billion this year.

Our commercial cloud annualized revenue run rate ended the year exceeding $18.9 billion, up more than 56 percent year-over-year. Our cloud growth puts us squarely on track to reach the goal we set a little over two years ago of $20 billion in commercial cloud annualized revenue run rate in fiscal 2018.

The strength of our results across our reporting segments reflects our accelerating innovation as well as increased customer usage and engagement across our businesses.

• More than 100 million people use Office 365 commercial.

• More than 27 million consumers use Office 365 Home & Personal across devices.

• More than 53 million members are active on Xbox Live.

• More than 500 million LinkedIn members use the LinkedIn network.

• Windows 10 is active on more than 500 million devices around the world.

• Dynamics 365 customers grew more than 40 percent year-over-year.

• Azure compute usage more than doubled year-over-year.

We prioritized our investments to capture our expanding market opportunities. We are investing for the future with product innovation complemented by new acquisitions and partnerships. We have completed our acquisition of LinkedIn to connect the world’s largest professional network with the world’s leading professional cloud. We are investing to create broader economic benefit and opportunity with our datacenter expansion, bringing Azure to 42 regions globally – more than any other cloud provider – and with the most comprehensive compliance coverage in the industry.

We broadened our offerings to reach new audiences, such as bringing Office 365 to firstline workers from retail and hospitality to manufacturing. We took collaboration to a new level with Microsoft Teams, which brings people, conversations and content together in a digital hub. We are in the forefront of innovating in mixed reality and how this new medium can radically change gaming, firstline and knowledge work through immersive experiences. We are innovating in gaming with new services such as Mixer and Xbox Game Pass. We introduced hundreds of new Azure

services, including new cognitive services APIs for vision, speech, text, translation, emotion and more. We have galvanized the company’s efforts around AI both to power each of our product categories with breakthrough capabilities and make the same capabilities available to our customers through Azure. We inspired new ways for students and teachers to create and learn with Windows 10 S. And we continued to create new device categories with Windows 10 and Surface, including the new Surface Studio and Laptop.

And we’re continually transforming to better serve customers, evolving our sales and marketing approach to galvanize around five core customer solution areas.

Across every industry in every corner of the world, our customers are using Microsoft technologies to radically transform everything from agriculture to manufacturing, and we are only at the beginning. Here are some examples.

BOEING

Boeing is using Microsoft HoloLens for 3-D visualization to transform employee training, and it is using Cortana Intelligence, Azure and Azure IoT to harness a wealth of aircraft data. This “digital twin” aircraft increases crew and maintenance efficiency, improves customer experience**,** and creates a new business model and services that Boeing can offer its airline customers.

THYSSENKRUPP

thyssenkrupp Elevator is using HoloLens to transform the way it measures, visualizes and installs its products, streamlining the initial surveying process of a stair lift installation. Using spatial mapping, 3-D visualization and the natural inputs offered by mixed reality, the company has digitized its sales and manufacturing processes to reduce delivery times as much as 4x, transforming its customer experience and growing its business opportunity.

TETRA PAK

Tetra Pak, the world’s largest food packaging company and inventor of the 20th century’s most important innovation in that industry, aseptic packaging technology, employs Azure to enable its cloud-connected machines to predict exactly when equipment needs maintenance. Service engineers use HoloLens to access experts who remotely guide them through a repair, reducing time and cost. With the cloud and mixed reality, Tetra Pak is delivering new and existing value in a much more efficient way – in the most remote locations, on the most mobile devices.

LAND O’ LAKES

Land O’ Lakes is working to feed the world sustainably by embracing the Microsoft Cloud, predictive data analytics and mobile technologies in tandem with family farmers. Using Azure, Office 365 and Surface, farmers in different parts of the world can access agronomic research, weather information and satellite data to make the right planting decisions and react to real-time changes in the field, every day.

SCHNEIDER ELECTRIC

Responsible and sustainable management of fresh water is one of the world’s biggest challenges. With 70 percent of fresh water reserves being used for agricultural purposes, every drop counts. Schneider Electric has built a smart farming platform using Azure IoT to enable farmers to more efficiently manage water use. Advanced analytics, live local data from sensors on the farm and access to pricing information from the local water utility allow farmers to maximize crop and livestock yields and lower energy consumption by pumping water at optimal times.

CASE WESTERN RESERVE UNIVERSITY AND CLEVELAND CLINIC

Case Western Reserve University and Cleveland Clinic are using mixed reality to transform medical education. Using HoloLens, they built an entirely new and immersive way to teach and learn human anatomy. Doctors who have looked at data sets like this for years say they have never fully understood the 3-D structure until seeing it as a hologram with HoloLens, giving them the ability to see a brain tumor in mixed reality and predict the impact of the tumor with 3-D modeling, or seeing the aortic valve in true relation to the critical structures around it.

**LOOKING FORWARD: OUR EXPANSIVE OPPORTUNITY**

**A new technology paradigm**

As you can begin to see in the examples above, a new technology paradigm is emerging, one with an [intelligent cloud and an intelligent edge](https://www.microsoft.com/en-us/Investor/events/FY-2018/Satya-Build-2017-our-evolving-worldview). Microsoft will lead this new era. There are three characteristics that define this shift. The first is that the experience layer is becoming multidevice and multisense, where a person’s experience with technology will span a multitude of devices and become increasingly more natural and multisensory with voice, ink, gestures and gaze interactions. Second, artificial intelligence (AI) will be pervasive across devices, apps and infrastructure to drive insights and act on your behalf. Third, computing will be more distributed than ever before with compute power at the edge, whether it’s the connected car, the connected factory floor or any connected device. As developers write new applications for this paradigm, they need new mechanisms to manage the complexity of distributed, event-driven computing.

With this new paradigm comes new opportunity. Every customer is looking for both innovative technology to drive new growth and a strategic partner that can help them build their own digital capability. Customers are looking to change how they use digital technology and to reimagine how they empower their employees, engage customers, optimize their operations, and change the very core of their products and services. They are building their own digital systems of intelligence to drive growth. Microsoft is uniquely positioned to capitalize on this opportunity with the combination of our technology, partner ecosystem and culture of growth mindset.

As we look ahead to fiscal 2018 and beyond, we will focus on bringing our technology and products together into experiences and solutions that deliver new value for our customers. Going forward, we will focus our innovation and investments in areas where we see the greatest opportunity for growth.

*The modern workplace*

The workplace itself is transforming – from changing employee expectations, a widening skills gap, more diverse and globally distributed teams, to an increasingly complex threat environment. The productivity experiences and tools we deliver will unlock the creator in all of us and enable seamless teamwork not just in the workplace, but also at school and at home across all the devices people use – from the phone to the laptop to mixed-reality headsets to the whiteboard. Microsoft 365 – which brings together Windows 10, Office 365 and Enterprise Mobility & Security – will be a key driver of value for our business customers of all sizes and for our business growth. The Microsoft Graph, which provides the underlying data model of the user’s experience, and the LinkedIn network, will make it possible for every professional in any business or functional role to be much more productive in getting things done.

*Business applications*

Every process inside a business is being digitized. This rapid shift means customers are looking to move away from monolithic suites that perpetuate disconnected data siloes and expensive custom extensibility frameworks. Our approach with Dynamics 365 and LinkedIn is to build modular business applications that are part of a connected data graph, enabling AI and extensibility that span a customer’s business process needs. We will enable organizations of all sizes to digitize business-critical functions across relationship sales, talent and people processes, operations, customer service, field service, and more.

*Applications and infrastructure*

Cloud computing is foundational to enabling digital transformation for any organization. Beyond being a trusted, global, hyper-scale cloud, what makes Azure unique is our hybrid consistency, developer productivity and SaaS

application integration. Our hybrid infrastructure consistency spans identity, data, compute, management and security, helping to support the real-world needs and evolving regulatory requirements of commercial customers and enterprise-focused SaaS ISVs. Azure Stack is an extension of Azure that enables developers to build and deploy applications the same way whether they run on the intelligent cloud or the intelligent edge. With Visual Studio and Azure Services, we provide the toolchain and application platform for modern DevOps that helps organizations with their agility and productivity – and enable them to use the best of the Windows ecosystem and the best of the Linux ecosystem together. Azure enables SaaS ISV developers to reach 100 million plus enterprise users through the integration of Azure Active Directory and Office 365, and by embedding Power BI, Power Apps and Flow as part of their applications, enables customers to have consistent identity, developer extensibility and security across their application portfolio spanning their own custom applications and SaaS applications.

*Data and AI*

The core currency of any business going forward will be the ability to reason over its data using AI to drive competitive advantage. Microsoft Research continues to make significant advances in AI technologies, infusing them into product experiences like Bing, Cortana, LinkedIn Newsfeed, Skype Translator, Editor and PowerPoint Designer in Office, Relationship Health in Dynamics, HoloLens, and many more. We are uniquely positioned to take this AI capability and democratize it, so that every developer can be an AI developer, and every company can become an AI company. It all starts with having support for the comprehensive data estate spanning Azure Database, Cosmos DB, Data Warehouse and Data Lake, combined with SQL Server. Azure is the cloud with the richest set of ML tools, bot framework and cognitive services, enabling developers to add AI capabilities into their applications. With state-of-the-art GPU and FPGA support, our Azure infrastructure is best in class for AI workloads. I am excited about our road map here and what’s to come.

*Gaming*

The $100 billion plus gaming industry is experiencing massive growth and transformation, and we have an expansive opportunity as we think about gaming end-to-end – from the way games are created and distributed to how they are played and viewed. We will build on our strong foundation of connected gaming assets across PC, console, mobile and work to grow and engage the 53 million strong Xbox Live member network more deeply and frequently – from great game experiences to streaming to social to mixed reality. We will be the company for gamers to play the games they want, with the people they want, on the devices they want. I’m excited about our opportunity to accelerate our growth opportunity, innovate boldly and earn new fans.

While these solution areas capture our near-term opportunity, we’re also investing in cutting-edge research to lead well into the future. Artificial intelligence, mixed reality and quantum computing will come together and shape the future of our industry and others for generations to come. We’re deeply committed to leading in these areas and bringing them together in ways that enable humanity to solve our most pressing issues, from climate change to curing cancer to creating economic opportunity for all. We will do so by adhering to the highest ethical principles and standing for our timeless values.

**OUR RESPONSIBILITY IN THE WORLD**

Our mission to empower every person and every organization on the planet extends to our corporate social responsibility efforts. We strive to use our technology, grants, employees and voice to improve people’s lives by enabling access to the benefits and opportunities that technology offers. This past year we increased our investments across a range of strategic initiatives.

• Microsoft Philanthropies donated more than $1.2 billion in software and services in fiscal 2017, helping nonprofits around the world get the technology and skills they need for today’s digital economy.

• Since 2016 we have donated more than $1 billion in cloud services to more than 90,000 nonprofits and university researchers – achieving our $1 billion milestone a year early – and [announced](https://blogs.microsoft.com/on-the-issues/2017/09/25/learn-nonprofit-can-leverage-technology-greater-impact/) a new plan to more than triple the number of nonprofits we’ll reach to 300,000 over the next three years.

• Our employees raised a record-breaking $142 million through our employee giving program in 2016. I am proud and humbled by their commitment to not only make a difference with our customers and partners, but in their local communities and the broader world.

• We’re ensuring that our products and services are accessible to meet the needs of all our customers, including the more than 1 billion people around the world with disabilities. Examples include our new [Eye Control](https://blogs.msdn.microsoft.com/accessibility/2017/08/01/from-hack-to-product-microsoft-empowers-people-with-eye-control-for-windows-10/) feature in Windows 10 for people with ALS, and [Seeing AI](https://www.microsoft.com/en-us/seeing-ai/), a free app on iOS for blind and low vision users that narrates the world around you.

• We’re partnering with telecommunications companies through our [Rural Airband Initiative](https://blogs.microsoft.com/on-the-issues/2017/07/10/rural-broadband-strategy-connecting-rural-america-new-opportunities/) to bring broadband connectivity to 2 million people in rural America by 2022, helping to close the rural broadband gap for the more than 20 million Americans living in rural communities who lack access to the economic, educational and health opportunities the internet provides.

• We’re advancing our sustainability efforts, completing our largest wind energy purchase to date and aiming to address some of the world’s toughest environment challenges through our new [AI for Earth](https://www.microsoft.com/en-us/aiforearth) initiative.

• Finally, as part of our broader responsibility to engage thoughtfully in the public dialogue on the important challenges facing our world, we published “[A Cloud for Global Good](https://news.microsoft.com/cloudforgood/)” to help companies and governments ensure technology is trusted, responsible and inclusive.

When I reflect on the past year, I’m proud of our progress – both in our own continued transformation and in how we are empowering customers to digitally transform.

As a multinational corporation, we have both a substantial opportunity and a high responsibility to ensure that technology’s benefits reach people more broadly across our global society and economy. Everywhere we operate, we focus on contributing to local communities in positive ways – helping to spark growth, competitiveness and economic opportunity for all.

To serve the needs of our customers well into the future, we must continually transform while remaining steadfast to our timeless values. Microsoft has both the capability and the culture to help customers digitally transform today, while creating new technologies that are among the most innovative and impactful humankind has ever experienced with mixed reality, artificial intelligence and quantum computing.

We will continue to invest in the highest growth opportunities, innovate boldly, and empower people and organizations by creating the platforms and tools that enable others to grow and thrive, now and well into the future.



Satya Nadella

Chief Executive Officer

October 16, 2017