Dear shareholders, customers, partners and employees:

As I reflect on our progress this past year, I first want to say thank you for your commitment and investment in Microsoft. I’m proud of what we’ve accomplished together as we innovate and help customers navigate their digital transformation, and I am even more optimistic about the opportunity ahead.

We are living at a crucial time in history where the impact of technology on every part of our daily life and work and every aspect of our society and economy is more acute than ever before. It is incumbent upon leaders of our industry to ensure that the technology we build always creates opportunity. Too often, we celebrate technology disruption for the sake of disruption without reflecting on its unintended consequences. What the world needs is technology that benefits people and society more broadly and is trusted.

**Our mission is to empower every person and every organization on the planet to achieve more.** Our business model is dependent on our customers’ and partners’ success. We are grounded in creating local economic opportunity in every community, helping to unlock the power of technology to address our customers’ most pressing challenges. Our platforms and tools enable creativity in all of us. They 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.

Our culture enables us to pursue our mission with a growth mindset. It’s a continuous practice of learning, renewal and having the courage to confront our own fixed mindsets. Collectively, we are moving from a group of people who know it all to a group of people who want to learn it all. To achieve our mission, we must reflect the diverse perspectives and experiences of our customers around the world. We must have a deep sense of their unmet and unarticulated needs. Each day we are pushing ourselves to be more customer obsessed, to be more diverse and inclusive, and to operate as One Microsoft — ultimately to make a bigger difference in the world.

**OPPORTUNITY AND IMPACT**

One of the greatest privileges I have as CEO of Microsoft is seeing firsthand the incredible impact our technologies have on people and organizations around the world. Our ecosystem touches the lives of billions of people every single day, creating new opportunity for our customers and partners and positively impacting local communities.

In Kenya, our partner M-KOPA Solar has connected hundreds of thousands of homes across sub-Saharan Africa to solar power for the first time using the Microsoft Cloud, innovating with a pay-as-you-go model that helps households living on less than $2 a day establish a credit history. In Arizona, we are applying Dynamics 365 to improve outcomes among one of the state’s most vulnerable populations — the more than 15,000 children in foster care. In Poland, MedApp is using HoloLens to help cardiologists visualize a patient's heart as it beats — in real time — reducing the amount of time they then need to perform open-heart surgery. In Kona, Hawaii, Jack’s Diving Locker is using Microsoft 365 to connect its 50 employees across land and sea so that they can focus on what they do best — protect pristine coral reefs and take people diving. In Washington state, Karrick Johnson, an 8-year-old with dyslexia, avoided reading in class until he started using our Learning Tools. And in Cambodia, underserved children in rural communities are learning to code with Minecraft, opening doors to futures that would have previously been unimaginable.

Across the globe, enterprise customers in every industry — from iconic brands like Coca-Cola Company and Chevron Corporation to ZF Group, a car parts manufacturer in Germany — are using our technology to build their own digital capability so they can thrive in a world where every company is a software company. Walmart — the world’s largest company by revenue, and its biggest private employer — chose Azure and Microsoft 365 to fuel its digital transformation, transforming the shopping experience for customers and empowering their more than 2 million associates to do their best work.

In sum, our platforms create broad surplus everywhere, from the farmer who is able to apply precision agriculture to conserve resources and increase yields, to the hospital that is able to lower the cost of healthcare and improve patient outcomes, to the largest companies of the world reaching new customers in new markets.

**RESULTS AND PROGRESS**

The breadth and depth of our mission and the trust customers are placing in us to power their digital transformation enable us to have this broad impact — and it is fueling our results.

In fiscal 2018, we delivered $110.4 billion in revenue and $35.1 billion in operating income and returned $21.5 billion to shareholders through dividends and share repurchases.

Our commercial cloud business delivered more than $23 billion in revenue, exceeding the ambitious goal we had set to achieve $20 billion in annualized commercial cloud revenue by the end of fiscal 2018, nine months ahead of schedule. In addition, we expanded our commercial cloud gross margin to 57 percent, up 7 points year-over-year.

These are strong results — and yet the opportunity ahead in a world powered by an intelligent cloud and edge is unprecedented. Imagine a future where all of your apps and experiences revolve around you and transcend any single device; where data in any form is analyzed in real time so that computers can anticipate and even act on your behalf and augment what you would otherwise be able to accomplish on your own. And where computing is more distributed and embedded in the world, from intelligent digital assistants at work, on the go and in your home that you can communicate with in a myriad of ways — voice, eyes or gestures — to oil rigs that adjust production in real time as demand fluctuates in global markets.

Across each of our customer solution areas, we are broadening our offerings and accelerating our innovation to capture the opportunities this new era will create for our customers and better meet their unarticulated needs.

*Modern Workplace*

We expanded our Microsoft 365 offerings to reach new audiences and empower more employees for the modern workplace, protecting data from increasingly sophisticated cybersecurity threats and delivering secure productivity and collaboration tools. Already a multi-billion-dollar business, Microsoft 365 gives customers a path to the cloud and broadens our reach with new and under-penetrated markets — from Fortune 500 enterprises to small businesses to more than 2 billion firstline workers. More than 135 million people use Office 365 commercial every month, and Outlook Mobile is helping people be productive and stay secure on more than 100 million iOS and Android devices worldwide — with AI-infused experiences they use every day. Microsoft Teams has rapidly become the hub for teamwork and is being used by more than 300,000 organizations of all sizes, including 87 of the Fortune 100. Windows 10 is now active on nearly 700 million devices around the world. And we continue to create new device categories with always-on, always-connected Windows 10 PCs and an expanded family of Surface devices including the new Surface Go — setting the bar for the industry.

*Business Applications*

Every process inside a business is being digitized, and we are winning customers with our differentiated approach, enabling organizations of all sizes to digitize critical business functions — from sales to marketing to HR. Dynamics 365 is the alternative to monolithic, siloed suites of business applications with modular, extensible and AI-driven apps that are part of a connected data graph and unlock insights across every part of the organization. Net seats grew 52 percent year-over-year, and our investments in Power BI have made Microsoft the leader in business analytics in the cloud. Our recently announced Open Data Initiative with Adobe and SAP will enable our customers to take control of their data and build new experiences that truly put people at the center. And we are innovating with HoloLens and mixed reality to create immersive experiences that digitize physical spaces and interactions to transform training, collaboration and design for firstline workers, who account for 80 percent of the world’s workforce.

LinkedIn is the essential platform to connect the world’s professionals and create economic opportunity for every member of the global workforce. LinkedIn now has more than 575 million members, and we are continuously innovating to give them new ways to connect and engage with one another — from increasing the relevancy of the LinkedIn Feed to a better mobile experience, to introducing new video and messaging capability. And we are transforming how companies manage talent, training, and sales and marketing with new solutions powered by the LinkedIn and Microsoft Graphs. Dynamics 365 for Talent with LinkedIn Recruiter and Learning gives HR professionals a complete solution in an increasingly competitive talent marketplace, and deep integration of LinkedIn Sales Navigator and Dynamics 365 redefines social selling, enabling sales professionals to dramatically increase their effectiveness by drawing on the relationships in their personal networks. We will continue to innovate across the LinkedIn platform to add new value for members and customers.

*Applications and Infrastructure*

To thrive in the era of the intelligent cloud and intelligent edge, customers need a consistent computing stack from the cloud to the edge. Azure is the only hyperscale cloud that extends to the edge across identity, data, application platform, and security and management — and this architectural advantage is increasingly clear to our customers. Azure revenue grew 91 percent year-over-year.

And we are investing aggressively to build Azure as the world’s computer. We expanded our global datacenter footprint to 54 regions — more than any other cloud provider — and with the most comprehensive compliance coverage in the industry to meet evolving regulatory needs, creating broader economic benefit and opportunity in local markets on six continents. With Project Natick, we even innovated beyond land, experimenting with a full-scale subsea, zero emissions datacenter with the promise of setting new standards for datacenter provisioning, latency and sustainability.

We added nearly 500 new Azure capabilities in the past year alone, focused on both existing workloads and new workloads such as IoT and Edge AI. IoT is transforming the rules of manufacturing, retail, and oil and gas — fueling cloud and edge innovation, accelerating the evolution of digital factories and enhancing supply-chain performance. Azure IoT and Azure Stack — a first-of-its-kind cloud-to-edge solution — enable customers and partners to build IoT solutions that run at the edge, so people from the factory floor to the retail store to the oil rig can manage devices and analyze data in real time. We introduced Azure Sphere, another first-of-its-kind, highly secure edge solution that combines chip design, an IoT operating system and a cloud service to secure the more than 9 billion microcontroller-powered devices entering the market each year — from kitchen appliances to industrial equipment. It’s an incredible example of how we are helping our customers realize the promise of a world of connected devices and things. And, our ambition extends beyond today’s computers to quantum computing to take us beyond the limitations of traditional, transistor-based computers and enable entirely new scenarios. We first unveiled our vision for quantum last year, and we are already seeing customers apply our quantum-inspired algorithms to address some of their most pressing challenges.

*Data and AI*

Our customers will increasingly need to build their own AI to extract insights from the ever-increasing amount of data they collect — and we are investing to make Azure the best cloud for their comprehensive data estates. We are democratizing data science and AI with Azure Cognitive Services, Azure Machine Learning and data services such as Azure Cosmos DB — the first globally distributed, multi-model database — to help organizations of all sizes convert their data into insights and experiences for competitive advantage. In less than a year, Azure Cosmos DB has already exceeded $100 million in annualized revenue. Azure Database for MySQL and PostgreSQL makes it even easier to bring open source-powered applications to Azure, expanding our opportunity in this space. And we are seeing rapid customer adoption of Azure Databricks for data preparation, advanced analytics and machine learning scenarios. We are leading in the field of AI research, achieving human parity with object recognition, speech recognition, machine reading and — this year — language translation. But that is not enough. We are committed to translating these breakthroughs into toolsets our customers can use. More than 1 million developers have already used our Cognitive Services to quickly and easily create AI applications. Our Azure Bot Service has nearly 300,000 developers, and we are driving new advances in our underlying cloud infrastructure, building the world’s first AI supercomputer in Azure. Microsoft Translator brings AI-powered translation to developers where their data is, whether in the cloud or on the edge. Our pending acquisition of GitHub recognizes the increasingly vital role developers will play in value creation and growth across every industry, and will enable us to bring our tools and services to new audiences while enabling GitHub to grow and retain its developer-first ethos.

*Gaming*

We are pursuing an expansive opportunity in gaming — from the way games are created and distributed to how they are played and viewed — surpassing $10 billion in revenue this year for the first time. We are investing aggressively in content, community and cloud services across every endpoint to expand usage and deepen engagement with gamers. Xbox Live now has 57 million monthly active users, and we are investing in new services like Mixer — which blurs the line between watching and playing — and Game Pass, our new unlimited subscription service. The addition of five new gaming studios this year bolsters our first-party content development to support our fast-growing gaming services. And our acquisition of PlayFab accelerates our vision to build a world-class cloud platform for the gaming industry across mobile, PC and console. I’m excited about our opportunity in the fast-growing $100 billion gaming market and what’s to come.

**TRUST AND RESPONSIBILITY**

At a time when digital technology is transforming every industry and every part of our daily life and work, our customers are increasingly looking for a partner whose business interests are fundamentally aligned with their own. At Microsoft, our customers’ interests are core to our success. That is what engenders trust.

This commitment extends to instilling trust in technology across everything we do. We believe that privacy is a fundamental human right, which is why compliance is deeply embedded in all our processes and practices. We extended the data subject rights that are at the heart of General Data Protection Regulation (GDPR) to all our customers around the world, not just those in the European Union, and advocated for the passage of the [CLOUD Act](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2018%2F04%2F03%2Fthe-cloud-act-is-an-important-step-forward-but-now-more-steps-need-to-follow%2F&data=02%7C01%7C%7C4405bf39133443fdce0208d614e0c74f%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719352974350015&sdata=ixzNlRhOwH6KLIw2j1RZtjsluOFdzOKSBV7rOgN0OJc%3D&reserved=0) in the U.S.

Cybersecurity is the central challenge of the digital age, and we are innovating to provide end-to-end security for our customers with security operations at global scale that analyze more than 6.5 trillion security signals each day, enterprise-class technology, and broad cybersecurity partnerships for an increasingly complex and heterogeneous world. We led the [Cybersecurity Tech Accord](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2018%2F04%2F17%2F34-companies-stand-up-for-cybersecurity-with-a-tech-accord%2F&data=02%7C01%7C%7C4405bf39133443fdce0208d614e0c74f%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719352974350015&sdata=66QV7KHieciPoHYljz1duCP7c%2BWm%2Bvwl74tCp%2BMdzbA%3D&reserved=0), which has been signed by 61 global organizations, and are calling on governments to do more to make the internet safe. We announced the [Defending Democracy Program](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2018%2F08%2F20%2Fwe-are-taking-new-steps-against-broadening-threats-to-democracy%2F&data=02%7C01%7C%7C4405bf39133443fdce0208d614e0c74f%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719352974350015&sdata=3wCy1fiN9QXggrAk1F54rCL7eVgSSCBymy1p8I1otdE%3D&reserved=0) to work with governments around the world to help safeguard voting, and introduced [AccountGuard](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2018%2F08%2F20%2Fprotecting-democracy-with-microsoft-accountguard%2F&data=02%7C01%7C%7C4405bf39133443fdce0208d614e0c74f%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719352974350015&sdata=rpt%2FB0b3JA0AiTMKb%2Bb1u0nOyTVJGt9GrgOjEb5sBCI%3D&reserved=0) to offer advanced cybersecurity protections to political campaigns in the U.S.

And, as we make advancements in AI, we are asking ourselves tough questions — like not only what computers can do, but what *should* they do. That’s why we are investing in tools for detecting and addressing bias in AI systems and advocating for thoughtful government regulation.

We also have a responsibility as a company to empower everyone to fully participate in our society and economy using technology. We are working with governments, the private sector and local nonprofit organizations around the world to make this vision a reality. We donated more than $1.4 billion in software and services in fiscal 2018, via Microsoft Philanthropies, helping nonprofits get access to the technology they need to drive greater impact, and in calendar year 2017 our employees donated a record $158 million (including company match) through our employee giving program to support nonprofits in local communities.

We are putting AI tools into the hands of change-makers to address society's most pressing challenges with new programs like [AI for Earth](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2017%2F12%2F11%2Fai-for-earth-can-be-a-game-changer-for-our-planet%2F&data=02%7C01%7C%7C360c88e8c89a416d1bc908d614f3b372%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719434248388316&sdata=%2FTMJ3QN4LMX1PMiT%2F6VFIF5Kpwhwo%2FIx3%2FD%2BV9TZSnU%3D&reserved=0), a five-year, $50M commitment to environmental sustainability, and [AI for Accessibility](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fblogs.microsoft.com%2Fon-the-issues%2F2018%2F05%2F07%2Fusing-ai-to-empower-people-with-disabilities%2F&data=02%7C01%7C%7C360c88e8c89a416d1bc908d614f3b372%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719434248388316&sdata=DtQtyqj6JsbTN2J14WSDmSsrpItY52fPhlGWZvRao5Q%3D&reserved=0) to benefit the more than 1 billion people with disabilities around the world. I am inspired by how teams across Microsoft are galvanized around inclusive design and accessibility — and producing tangible results, with new features and offerings for Microsoft 365, Office 365, Windows and Xbox designed to meet the needs of people with disabilities.

Finally, we know that the jobs of today will not be the jobs of tomorrow and are investing to provide today’s workforce and future generations with the digital skills they will need to succeed, partnering with nonprofit organizations across 54 countries to provide computer science learning experiences to millions of young people around the world and expanding our [TEALS program](https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.microsoft.com%2Fen-us%2Fdigital-skills%2Fteals&data=02%7C01%7C%7C84679295fc5045bc52dc08d615032576%7C72f988bf86f141af91ab2d7cd011db47%7C1%7C0%7C636719500584493263&sdata=i4z34o2glnt8S%2Bx%2BTjee%2FH4GjO6y22UsoG4QU0xgjBE%3D&reserved=0) in high schools across the U.S.

I’m proud of our progress, and I’m proud of the more than 100,000 Microsoft employees around the world who are focused on our customers’ success in this new era. We have long recognized that the health, wellbeing and diversity of our employees help Microsoft succeed. That’s why we provide industry-leading benefits for our employees, including comprehensive health and wellness programs for families, paid vacation, paid sick leave and paid time off for new parents. We were one of the first companies to require our U.S. suppliers doing substantial business with us to provide paid time off for their employees. And this year we took a further step to ensure that these suppliers also provide their employees with paid parental leave.

Over the past year, we have made progress in building a diverse and inclusive culture where everyone can do their best work. Since FY16, we have nearly doubled the number of women corporate vice presidents at Microsoft — both overall and in technical roles. We’ve increased African American/Black and Hispanic/Latino representation by 33 percent. And this past fiscal year more than half of our U.S. interns were women or African American/Black and Hispanic/Latino. We must keep pushing to do more, and representation is only one measure of progress. Creating a diverse and inclusive workplace at Microsoft is everyone’s job. And this year we increased our commitment, ensuring that every leader and employee prioritizes diversity and inclusion as part of our annual performance review process.

In closing, we will continue to create local opportunity, growth and impact in every community and country around the world. We will continue to invest in the largest growth opportunities and innovate boldly to serve our customers. We will continue to help our customers build digital capability, so they can grow and thrive — today and long into the future. We will continue to work to instill trust in technology across everything we do, to advocate for customer privacy, drive industry-wide cybersecurity initiatives and champion ethical AI. And we will continue to transform our culture to reflect the diverse customers we serve around the world, while holding fast to our timeless values.

Last spring, I visited our AI School in Paris, France, which we started earlier this year to provide immersive training to help close the skills gap. Students from different backgrounds and walks of life, with no prior technical experience, are learning new data science skills. They take an intense seven month class, followed by an apprenticeship at one of our local partners — and are ready for new careers in AI and data science. While there, I met Cassandra Delage, a young entrepreneur with an ambitious dream of reimagining recycling. Her company, Plast’if, has created what might be best described as a “recycling vending machine.” You take plastic, put it in the machine, and it’s converted into a useful object you can take with you. She built it with students at the AI School, creating an ML model that recognizes the plastic, deploying it on an inexpensive computer and then integrating it with a 3-D printer — turning her novel idea into reality.

It’s just one example of how technology can help create new opportunity and build a better future for everyone.

And it’s just the start — I could not be more optimistic about what’s yet to come.

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Satya Nadella

Chief Executive Officer

October 16, 2018