

CITIZENSHIP REPORT 2005



Microsoft

About This Report

Reporting Scope and Structure

Our citizenship reporting reflects the structure of our Global Citizenship Initiative and related activities because we want our stakeholders—employees, customers, partners, shareholders, and others—to be able to compare our program goals and objectives with our results. Our report is a combination of two components: the following thematic print volume and a more expansive and comprehensive online publication. The thematic print volume highlights and provides an overview of some key citizenship issues the company addressed in the last fiscal year. The more comprehensive version of the report is an online publication that we will update on a rolling basis throughout the year. In the online portion of this report, we have included references to applicable Global Report Initiative (GRI) performance indicators to assist stakeholders in their review and assessment of our Global Citizenship Initiative. (More information about the GRI performance indicators is available at <http://www.globalreporting.org>.) The function of the GRI performance indicators is to provide information about the economic, environmental, and social impacts of organizations in a manner that enhances comparability between reports and organizations. In addition, both the print and online components of the report provide key links to more detailed information on Microsoft.com, Microsoft's corporate Web site.

Reporting Period

This report focuses on Microsoft's fiscal year 2005 (which began July 1, 2004, and ended June 30, 2005). All data are for that period unless otherwise noted.

Currency

All money figures in this report are in U.S. dollars unless otherwise noted.

Terminology

The terms "Global Citizenship" and "Corporate Citizenship," which are used throughout this report, are interchangeable with similar terms such as "Corporate Social Responsibility" and "Corporate Sustainability."

More information about the GRI performance indicators is available at

<http://www.globalreporting.org/> 

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Executive Welcome



“The power of computing enables people to pursue their passions and realize their potential, no matter who they are. Through global citizenship efforts and local partnerships, one of the ways we are helping to strengthen communities is to extend the benefits of technology to the people that can benefit most.”

— Bill Gates, Microsoft Chairman and Chief Software Architect

In 2005, we're celebrating Microsoft's 30th anniversary. Over the past three decades, our software products have enabled hundreds of millions of people to fulfill their personal and professional goals. We're proud of everything we have accomplished, but we haven't done it alone.

From the beginning, we have built our business through partnerships with approximately 650,000 companies, and we're expanding our global citizenship efforts through the same kind of proactive collaboration with other industry leaders, governments, community-based organizations, and nongovernmental organizations (NGOs). None of our achievements would be possible without the extraordinary efforts of our employees. Not only do they work hard every day to make Microsoft a successful business, they also contribute their time, expertise, and personal resources to many of our citizenship efforts.

In the course of our work, we meet often with government, NGO, and community leaders worldwide, and during our discussions one theme always emerges: their passion and drive to create opportunities for their citizens, for local businesses and industries, and for the communities they serve. At Microsoft, we share this passion for creating opportunities, and it is our mission to enable people and businesses throughout the world to realize their full potential.

That's why we have made a commitment to provide technology access and skills training to a quarter billion people by 2010—people previously underserved by technology. It's why we collaborate with law enforcement agencies and officials worldwide to keep children safe online, and why we work hard to make our software more secure from viruses, worms, and other malicious attacks. And it's why we have created a culture of accountability at Microsoft to help ensure that all of our business relationships and transactions exemplify the respect and integrity we have built into our core values.

But no matter how far-reaching our overall goals may be, they always come down to empowering one person at a time.

Whether we're working with community-based organizations and NGOs in China to increase employment opportunities for unskilled migrant workers, partnering with law enforcement officials in Canada to develop a customized system that helps police fight computer-facilitated crimes against children, collaborating in Latin America with the Organization of American States and its affiliate The Trust for the Americas to help people with disabilities gain the skills they need to start their own businesses and find employment, or working with leading companies and community organizations in Europe on a grants program to help small and medium-sized enterprises improve productivity through technology, our commitment is the same: to make it possible for people to use technology to improve their lives.

We are working every day to ensure Microsoft's continuing evolution as a global corporate citizen, and to create new opportunities for people everywhere.

Sincerely,

Bill Gates
Chairman and
Chief Software Architect

Steven A. Ballmer
Chief Executive Officer



“Partnership and collaboration are at the center of how we do business, and that's also how we work with governments and NGOs. It's central to our commitment to provide leadership in our industry, to create a safe and secure computing environment, and to advance a worldwide knowledge economy that creates possibilities for hundreds of millions of people previously underserved by technology.”

— Steve Ballmer, Microsoft Chief Executive Officer

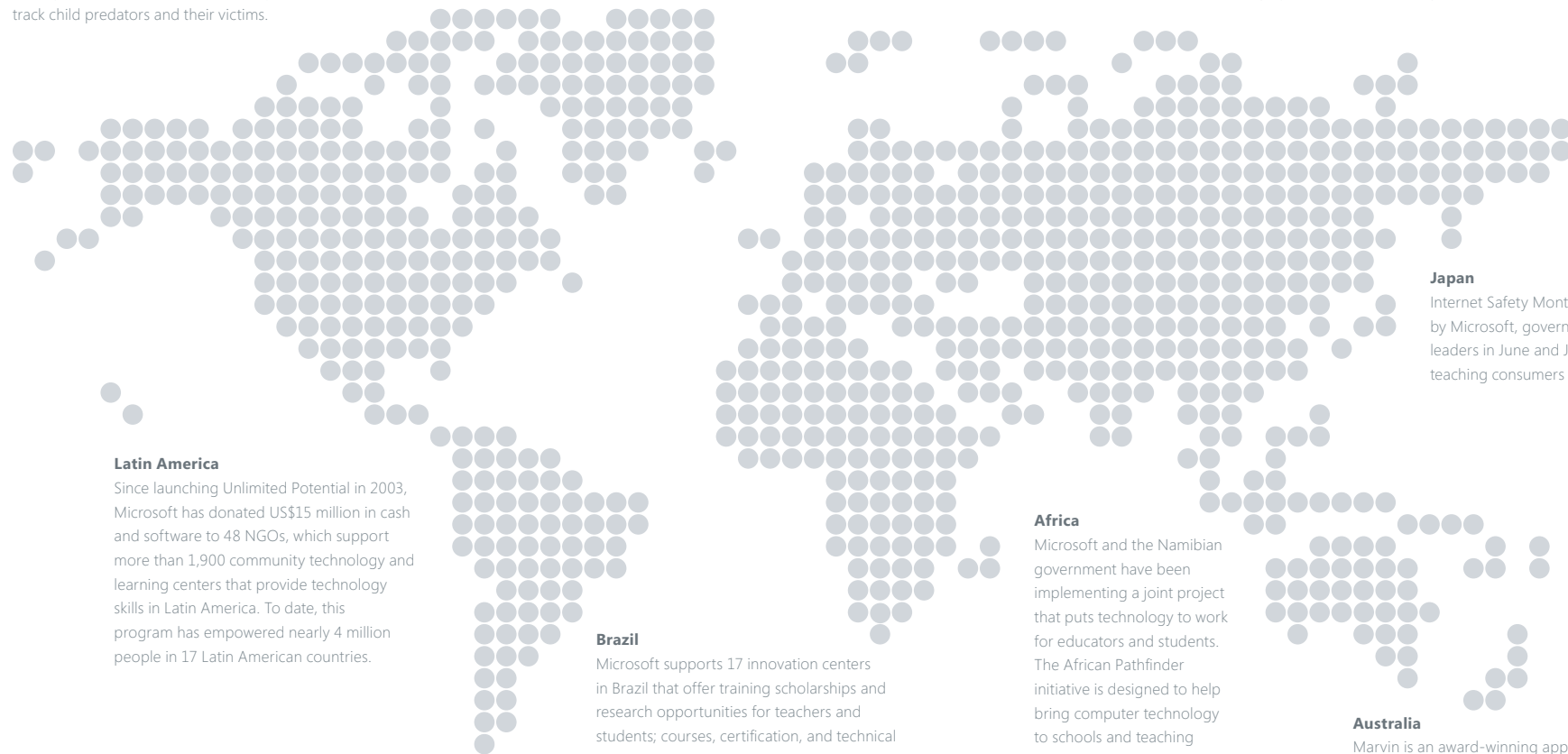
A Global Citizen

Canada

Microsoft worked closely with Canadian law enforcement to develop the Children's Exploitation Tracking System (CETS), which already has helped local police identify and track child predators and their victims.

European Union

Working with leading companies and community organizations, Microsoft established the European Union Grants Advisor program, which helps small and medium-sized businesses in Europe apply for structural funding from the EU and use those grants to improve productivity through technology. After completing a successful pilot in Spain, Hungary, and Poland, the program was rolled out across Europe this year.



Latin America

Since launching Unlimited Potential in 2003, Microsoft has donated US\$15 million in cash and software to 48 NGOs, which support more than 1,900 community technology and learning centers that provide technology skills in Latin America. To date, this program has empowered nearly 4 million people in 17 Latin American countries.

Brazil

Microsoft supports 17 innovation centers in Brazil that offer training scholarships and research opportunities for teachers and students; courses, certification, and technical guidance for software developers; and specialized services to help companies test their solutions. Approximately 70 percent of all students who developed projects at the centers in fiscal year 2005 found jobs soon after completing the program.

Africa

Microsoft and the Namibian government have been implementing a joint project that puts technology to work for educators and students. The African Pathfinder initiative is designed to help bring computer technology to schools and teaching curricula around the country. Microsoft has now signed public private partnerships with 15 African countries to replicate the model.

Japan

Internet Safety Month in Japan, cosponsored by Microsoft, government, and other industry leaders in June and July 2005, focused on teaching consumers how to stay safe online.

Southeast Asia

When a tsunami struck Southeast Asia, killing tens of thousands of people and leaving many others injured or homeless, more than 8,000 Microsoft employees rushed to help by donating cash and volunteering for on-the-ground relief efforts. Together, Microsoft and its employees donated US\$7.6 million.

Australia

Marvin is an award-winning application for training, education, and presentation authoring that uses customized, three-dimensional, animated characters to communicate important information to audiences in their own languages. Research shows that using Marvin may increase attendance and information retention a hundredfold over traditional communication. Through Partners in Learning, Microsoft is providing professional training to help teachers incorporate Marvin into classroom instruction.

Global Citizenship at Microsoft

At Microsoft, we believe that every successful corporation has a responsibility to use its resources and influence to make a positive impact on the world and its people. Microsoft's commitment and responsibilities as a global corporate citizen are grounded in our company mission and values, manifested through our business practices and operations, and carried out by thousands of Microsoft employees and suppliers worldwide.

Microsoft's ongoing work in the area of global citizenship is focused on mobilizing our resources across the company to create opportunities in communities around the world, to foster economic growth, and to serve the public good through innovative technologies and partnerships with government, industry, and community organizations.

The Global Citizenship Initiative

At Microsoft, our Global Citizenship Initiative is organized around three pillars, or strategic concepts, which form the foundation of our citizenship activities worldwide:

Demonstrating Responsible Business Practices

Ensure integrity and transparency in all of our business practices, with emphasis on strong governance, legal and antitrust compliance, support for industry standards, respect for intellectual property, interoperability of our products, and commitment to openness in our technology practices.

Improving Security and Internet Safety

Address the societal challenges of information and communications technology (ICT)—such as security, privacy, children's online safety, and spam—through investments in security technology; partnering with industry, governments, and law enforcement to combat cybercrime; and broadly distributing information to help customers make their systems more secure.

Advancing the Knowledge Economy

Partner with governments and communities around the world to help strengthen local economies—through digital inclusion initiatives, innovation, and programs that stimulate growth of the local technology industry—while contributing to the vitality of the global economy through ongoing technology innovation that leads to job creation and overall economic growth.

Constructive Stakeholder Engagement

At Microsoft, we understand that our reputation is a direct reflection of how we demonstrate our corporate values through our actions every day. We believe that constructive engagement with customers, partners, shareholders, governments, NGOs, and other stakeholders is an essential part of helping us to identify and manage key issues that will test how successfully we live our values. This improves our business decision-making processes, helps us to anticipate and respond to the changing expectations of society, and enables us to maintain a broad and balanced perspective about issues affecting our business and society.

More information about Microsoft's Global Citizenship Initiative and our progress in each of the pillars is available at www.microsoft.com/mscorp/citizenship/report/. 

An Invitation to Our Readers

We appreciate frank and honest feedback, both positive and negative, because it helps us to improve. We invite you to offer your observations and suggestions about this report and about Microsoft's global citizenship activities. Please send your comments to citizenship@microsoft.com.

Demonstrating Responsible Business Practices

The way we work with customers, partners, governments, vendors, and communities worldwide is fundamental to our success as a company. Microsoft promotes a culture of accountability and collaboration. We strive to ensure the quality and integrity of all of our business relationships and operations through strong corporate governance, full legal compliance, and constructive engagements with customers and partners, and by designing functionality into our software to make it highly interoperable with other companies' technology.

...at a glance recent examples of our work

Interoperability

In a survey by Jupiter Research, 72 percent of IT managers rated Microsoft technologies as the most interoperable within their existing environments.

Compliance and Competition

Recently, we transformed conflict into constructive engagement by settling legal issues with competitors such as Sun Microsystems and IBM and entering into new collaborative agreements with them to provide better products and services to our mutual customers.

In fiscal year 2005, we launched several new training programs for different employee audiences, including a revised New Employee Orientation, designed to help make certain that Microsoft employees act legally, ethically, and responsibly.

Corporate Governance

Corporate governance at Microsoft establishes management accountability, provides a structure for setting and attaining company objectives and monitoring performance, helps to ensure business integrity and responsible business practices, and encourages the efficient use of company resources.

Responsible Business Practices

Interoperable by Design

Microsoft has been working with industry partners on a new generation of software with built-in components to make it "interoperable by design." One approach to making information more easily understood by different systems is to develop products using XML. In 2005, Microsoft announced that XML technology will be the default file format in the next version of Microsoft Office, scheduled for release in 2006. Microsoft Office Open XML Formats are fully documented file formats with a royalty-free license. Any organization can integrate them directly into servers, applications, and business processes without financial consideration to Microsoft.

One important measure of a company's performance as a corporate citizen is in the way it conducts its business and manages its relationships. Transparency and integrity are at the center of all of Microsoft's business activities and interactions. They help us maintain our moral compass and do the right thing for consumers, businesses, community partners, governments, shareholders, and employees. Today, perhaps more than ever, stakeholders demand accountability from a global leader such as Microsoft.

One of the many ways that Microsoft ensures transparency and integrity is through our responsible business practices, which are guided by our corporate values, codes of conduct, company policies, and business strategies. Through these efforts we aim to promote innovation and competition for the benefit of consumers and our industry. These practices also guide us in our engagements with all parties, helping us to adhere to the highest ethical and legal standards.

Creating Opportunity Through Transparency and Interoperability

A clear example of our commitment to transparency is our success in making our products work well with those of other manufacturers, including our competitors. Interoperability—the ability of heterogeneous IT networks, applications, or components to exchange and use information—has increasingly become a key requirement for both industry and government. As a result, it also has become a key focus for Microsoft.

The Value of Interoperability for Customers

Like most municipalities, the City of Siegburg, Germany, collects and stores a large amount of data using various methods and software applications running on different operating systems. Specialized information systems handle a range of services provided by the city government, such as processing building permits, vehicle registrations, and passport applications.

Traditionally, citizens wanting to access a municipal service would have to visit a local office, stand in line, and fill in a paper form. A city employee would then enter the information from the form into the relevant computer system. The data would be processed and some weeks later the citizen would receive a response to the request.

Siegburg wanted to shorten the waiting time and reduce the paperwork by providing citizens and businesses with more convenient access to services over the Internet. To do this, it needed to make electronic forms and services available from a single integrated source, but its systems were built on a collection of different operating systems and applications.

To integrate its existing applications and services, and make them available on the Web, the City of Siegburg implemented the E-Government Starter Kit (EGSK), a free platform solution developed by Microsoft Germany specifically for public administrations that need to provide electronic interdepartmental services.

Developed using the Microsoft® .NET Framework, the EGSK enables the interoperability of data and functions by creating XML-based applications, processes, and Web services. Microsoft BizTalk® Server gives automated business processes the flexibility to incorporate a human touch at appropriate stages throughout a workflow.



"Citrix and Microsoft customers are going to continue to have access to best-of-breed technology and they're guaranteed a high degree of interoperability.... You're not requiring customers to make a choice [between Citrix and Microsoft solutions]."

— Laura DiDio, Senior Analyst,
Yankee Group

"Juniper Networks is delighted to be working with Microsoft to integrate user, application, and network policy and enforcement in a seamless manner. By working with Microsoft on Network Access Protection, we are furthering Juniper's commitment to open, multivendor standards to facilitate more secure network user access so our customers can be assured of a trusted IT environment and user experience."

— George Riedel, Vice President,
Strategy and Corporate Development,
Juniper Networks Inc.

Siegburg, for example, uses a Unix-based application for its financial system. BizTalk calls a Web service to interact with the application so that citizens can pay service fees and fines directly over the Web. With the Starter Kit, it is possible to build a layer on top of the different technologies, creating the bridge they need to work together efficiently. It can locate the data at the right point and transport it between the Internet and the back office.

Achieving interoperability with the EGSK has given the City of Siegburg the ability to provide one-stop service through its municipal Web portal. Services are available to citizens around the clock, and they do not have to go to municipal offices to stand in line and fill in paper forms. With one password, they can use many different applications, but all have the same look and functionality. It is now very easy for the citizens of Siegburg to communicate with the local government. The move to e-government also adds an element of transparency to municipal affairs. It is possible to track an application as it makes its way through different council processes, and any citizen can check his or her information and requests over the Web.

For the City of Siegburg, the use of leading-edge Microsoft .NET technology, based on Web services and open standards such as XML, has enabled communication across applications and operating systems regardless of the programming language in which the systems were written.

Providing Leadership on Interoperability

Microsoft is a leader in developing interoperable products, enabling our customers to select from and combine a wide range of technologies. Microsoft's approach to interoperability is comprehensive and multifaceted.

Microsoft is a world leader in promoting the development and implementation of open technical standards that facilitate interoperability across the widest spectrum of products and services. Such standards range from those defined by the numerous "open standards" bodies to broadly deployed and licensed "proprietary standards" adopted by companies across the marketplace. We implement hundreds of open standards and proprietary standards in our products to enhance their interoperability with other products and services.

As part of its commitment to interoperability, Microsoft has implemented a comprehensive IP licensing program. It comprises licensing source code for Microsoft Windows®, Microsoft Office, and other software, including hundreds of Microsoft-designed communications protocols, Office file formats and XML reference schemas, and other elements of our diverse IP portfolio such as patents, copyrights, and trademarks. Microsoft respects the IP of others and is also a beneficiary of such licensing programs from third parties. We believe such licensing encourages innovation, competition, and interoperability.

The Microsoft Approach

- > Developing software that is "interoperable by design"
- > Supporting and implementing industry standards (including open standards) in products and services
- > Publishing and licensing proprietary technologies and intellectual property (IP) to the industry, including competitors
- > Collaborating with partners, competitors, and governments

"With this announcement, SAP and Microsoft are delivering on the promise to deepen integration between SAP NetWeaver and .NET in order to help customers better integrate their enterprise.... SAP NetWeaver's open integration and application allow customers to leverage their existing software investments to drive innovation through the flexibility enabled by interoperability of third-party platforms like .NET. Thousands of shared customers will benefit from the improved level of interoperability that the PDK [Portal Development Kit] for .NET enables."

— Peter Graf, Senior Vice President, Product Marketing, Collaborative Solutions, SAP

Collaborating with other companies, and even competitors, can be the best way to meet the interoperability needs of customers, promote innovation, and benefit consumers. In addition to our continuing collaboration with governments and the IT industry in general, Microsoft has entered into agreements to promote interoperability with AOL, Yahoo, Cisco, Oracle, palmOne, Toshiba, Motorola, Symbian, Sun Microsystems, Research in Motion, Nokia, Vodaphone, IBM, SAP, BEA, and Siemens, among many others. Microsoft is dedicated to meeting customers' interoperability needs, now and in the future.

Integrity and Compliance

The expectations of our stakeholders—and of everyone inside Microsoft—demand that each of us embody the highest ethical and legal standards. There can be no compromise.

We call it a culture of accountability. At every level of the organization—from the Board of Directors to new employees, from the mission statement to individual e-mails—we are accountable for our corporate values and codes of conduct, and we strive to meet or exceed them every day.

In recent years, we have taken many steps to strengthen our culture of accountability—from establishing an Office of Legal Compliance to help employees comply with the legal requirements of the jurisdictions in which they work, to formalizing our Standards of Business Conduct and training our employees to ensure that they understand them. In fiscal year 2005, we launched several additional training programs targeted to specific employee audiences, including a revised New Employee Orientation, which emphasizes Microsoft's expectations that every employee act legally, ethically, and responsibly.

Moreover, in fiscal year 2005, Microsoft made significant progress in settling or resolving our legal differences with others so that we could work together for the benefit of all. For example we settled legal issues with IBM (July 2005), Novell (November 2004), Gateway (April 2005), and Burst.com (March 2005), as well as a class-action suit in Nebraska (April 2005).

In addition to these legal settlements, we also continued to solidify our industry relationships and to meet market needs through constructive relationships with partners and competitors. For example, in fiscal year 2005 we expanded our areas of cooperation with Sun Microsystems to include IP licensing and product development after settling our legal issues with the company in April 2004.

"This agreement will be of significant benefit to both Sun and Microsoft customers. It will stimulate new products, delivering great new choices for customers who want to combine server products from multiple vendors and achieve seamless computing in a heterogeneous computing environment."

— Scott McNealy, Chairman and CEO, Sun Microsystems, commenting on the broad technology collaboration arrangement that Microsoft and Sun entered into in April 2004 for the purposes of enabling their products to work together better and providing greater value to their customers.

A year later, McNealy added, *"Sun and Microsoft are working together... and quite well at that."*

"Interoperability is the hinge on a door that opens a completely new era of interaction between government agencies and the citizens they serve... Through our partnership, agencies can provide citizens with an integrated, single point of access for government services while at the same time obtain an integrated view of the data they need to deliver those services more efficiently and cost-effectively. HP and Microsoft will transform the way governments interact with their citizens and citizens with their governments."

— Enrique Barkey, Worldwide
Director of Civilian Agency
Solutions, Hewlett-Packard

European Commission

In early 2004, Microsoft worked diligently to address concerns raised by a European Commission investigation, attempting to resolve the issues amicably through a settlement. When this proved not to be possible, the European Commission issued a decision in March 2004, and Microsoft appealed the decision based on the merits of the case and requested a suspension of the interim measures during the appeal process. After the request for suspension was denied by the European Court of First Instance in December 2004, Microsoft's focus turned toward full and complete compliance.

To meet its obligations under the European Commission's decision, Microsoft implemented a protocol licensing program to make the technical information used to help Microsoft servers communicate with non-Microsoft servers available to partners and competitors. The company also developed a version of the Windows operating system that does not include the Windows Media® Player function.

Following feedback based on extensive industry market testing by the Commission, Microsoft made additional changes to further implement the Commission's remedies. The company continues the appeal process and expects to present its case before the European Court of First Instance in late 2005 or sometime in 2006. Meanwhile, Microsoft continues to put a high priority on complying in full with its legal obligations as well as developing constructive relationships with European governments and institutions.

Antitrust Compliance

As a responsible industry leader, Microsoft continues to meet all of its obligations under the 2002 Consent Decree with the U.S. Department of Justice and state Attorneys General. We have worked to strengthen programs that were created prior to the Consent Decree in response to the dynamics of the market, as well as those related directly to the settlement. For example, Microsoft:

- Maintained the standardized Windows license and uniform royalty rates for all PC manufacturers.
- Continued to provide developers with thousands of Windows application programming interfaces (APIs) and continued the protocol licensing program, both of which enhance our efforts to make our software interoperable and to stimulate innovation in the marketplace.

For more information on this issue please visit

www.microsoft.com/mscorp/ip/protocols. 

- Conducted training programs in more than 60 countries to help make certain that employees understand our legal obligations and our commitment to full compliance.

In ethics as in software, anything short of the highest standard is not acceptable. At Microsoft, we are dedicated to achieving the highest standards in everything we do.

Improving Security and Internet Safety

As an industry leader, Microsoft recognizes its responsibility to help make the Internet safer and computing more secure. Our ultimate goal is to help create an environment in which adults, children, businesses, and other organizations can enjoy the full benefits of the Internet without concerns about their safety, privacy, or security. Meanwhile, we continue to work toward that goal with the help of government, industry, and law enforcement partners worldwide, and to help consumers and our customers understand what they can do to protect themselves and their systems.

...at a glance recent examples of our work

Simpler, Safer Computing

Released in early fiscal year 2005, Windows XP Service Pack 2 with Advanced Security Technologies brings Windows XP users stronger default security settings. It can automatically install new security features that help users protect their computers from hackers, viruses, and other security risks. To keep pace with the dynamic nature of security threats to businesses, Microsoft launched Windows Server™ 2003 Service Pack 1 with new security features to help companies and organizations keep their IT environments safe and under control.

Innovative Technologies

Security breaches can come in unexpected forms. That's why Microsoft is developing a series of new technologies that help prevent and protect against spam and phishing attacks by various means, including proof of a sender's identity and evidence of the sender's reputation, which adds another layer of safety and security on any device.

Law Enforcement Partnerships

Microsoft collaborates with law enforcement agencies around the world on programs like the Anti-Virus Rewards Program, which offers reward money to help stop people who create and launch viruses, worms, and other malicious code attacks. To date, Microsoft has filed more than 200 lawsuits against spammers and cybercriminals worldwide. We also have worked with many local and global law enforcement partners—including Interpol, the International Centre of Missing and Exploited Children, and the Australian High Technology Crime Centre—to provide training and to help with cybercrime investigations in more than 70 countries.

Security and Internet Safety

Excellence in Security Fundamentals


In fiscal year 2005, Microsoft also released Windows Server 2003 Service Pack 1, which offers businesses and network administrators increased security options and manageability.

We have done a lot to improve product quality and engineering excellence over the last few years. Every year, 15,000 Microsoft developers, testers, and program managers attend mandatory training on how to write more secure code. We have integrated security into our software development process. The results have been a significant decrease in the number of security bulletins issued for products like Windows XP and Windows Server 2003 and a significant increase in the security of our customers' systems.

Although no system as open and interconnected as the Internet can ever be made perfectly secure, through our investments in technology fundamentals and innovation, and our collaboration with industry and government, we continue to move closer to that ideal. At Microsoft, we focus on three core strategies to improve security and increase Internet safety:

- 1. Technology Innovation** to help make our products more secure, to improve the software update process, and to provide new features and products that help improve safety.
- 2. Partnership and Collaboration** with government officials, community organizations, and others in industry to help develop policies and other strategies to protect Internet users and prevent online harm.
- 3. Guidance and Education** to help customers make their systems more secure and prepare themselves against emerging threats.

In fiscal year 2005, we made significant progress in each of these areas.

More information about those efforts and achievements is available at www.microsoft.com/mscorp/citizenship/report/. 

Throughout the year, one of our top security and Internet safety goals has been to empower users through simplification, which includes making the process of keeping computers secure less complicated and using technology to simplify the pursuit of those who harm Internet users.

Simpler, Safer Computing

In fiscal year 2005, Microsoft released Service Pack 2 (SP2) for the Windows XP operating system. SP2 is a free download that is helping to make safer and more secure computing easier for millions of computer users worldwide. Its release was a substantial step forward in the company's Trustworthy Computing Initiative, an initiative launched in early 2002 and aimed at fundamentally changing the way we design and develop software to address more holistically the complex threats to computer security.

In developing SP2, Microsoft sharpened its focus on making things simple. Not long ago, the people who created Blaster, Slammer, and other worms did a lot of damage by exploiting computers that did not have the latest security updates installed. Jim Allchin, Group Vice President for the Platforms Division at Microsoft, looked across the landscape of unprotected systems and issued a challenge to his team:

"Make the Windows security update process simple enough for my mother to use." — Jim Allchin, Microsoft

Although Microsoft had been making security updates available faster than ever before, worms and viruses were causing tremendous damage because the updates weren't being implemented. Ordinary users, like Jim's mother, needed a simpler way to update software and keep their systems secure.

The first step was to encourage more people to use a service called "Microsoft Update," which automatically downloads critical software updates from Microsoft whenever a user establishes an Internet connection.



Trustworthy Computing

Computers help transport people into space, control critical aircraft systems for millions of flights annually, and move trillions of dollars around the globe every day. Even so, many people are hesitant about trusting computers with personal information, such as financial and medical records, because they have concerns about computer security, system reliability, and data privacy. We understand those concerns, and to address them we launched Trustworthy Computing, a long-term, collaborative effort to provide secure, private, and reliable computing experiences for everyone. At Microsoft, Trustworthy Computing is a core priority that guides virtually everything we do.

Our three-pronged approach to Trustworthy Computing includes extensive technology investments, proactive customer guidance and engagement, and responsible industry leadership and collaboration.

Internet Safety Month in Japan

Internet Safety Month in Japan, cosponsored by Microsoft, government, and other industry leaders in June and July 2005, focused on teaching consumers how to stay safe online. The initiative included a nationally televised symposium, featuring Microsoft Chairman Bill Gates as a keynote speaker, plus television public service announcements, a new Internet safety Web site, student and consumer outreach events with a national retail store, and partnership with the Japan Education Ministry for its Net Day event in the fall.

Participants included major companies such as NEC, Fujitsu, Hitachi, Toshiba, Yahoo, Dell, Turbo Linux, and Symantec, as well as government ministries and organizations such as UNICEF and ECPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes). A Technical Cooperation Agreement between Microsoft and the National Police Agency of Japan was signed during Internet Safety Month, whereby Microsoft will help support the division's efforts to fight cybercrime by providing security training and a technical information hotline.

When our researchers studied how customers installed Windows for the first time, they discovered that users were often confused by the number of choices they were offered and ended up bypassing many options, including security enhancing options, without understanding them. In SP2, we addressed this problem by making it impossible for users to click past the feature without making a conscious choice. They must either turn on Automatic Updates or decide to leave it turned off, and they are presented with a clear explanation of the security benefits to help them make the decision.

Our developers did not stop there. SP2 is configured so that the firewall in Windows XP is turned on by default to block malicious programs from ever reaching a protected computer. Even this seemingly simple step proved challenging, because activating the firewall by default required developers to relentlessly test and modify SP2 and the firewall so that other applications and the overall user experience would not be adversely affected by the stronger security measures. Our developers also put a new set of controls in an easy-to-access and easy-to-use Windows Security Center, which centralizes safety information about the computer. If any security features are not properly set, users receive a notification and recommended actions to help them protect their computers.

Our internal research shows that, compared with computers running earlier versions of the Windows XP operating system, PCs running Microsoft Windows XP with Service Pack 2 are 13 to 15 times better protected from viruses and from the most prevalent forms of malicious software on the Internet today.

By the end of fiscal year 2005, more than 218 million people worldwide had downloaded SP2 and nearly 90 percent of all SP2 users were running Automatic Updates.

For those who use earlier versions of Windows, we have simplified our Protect Your PC (PYPC) campaign. Now, when you visit www.microsoft.com/protect, the PYPC site makes an assessment as to which operating system is being used, and the site is automatically populated with security and software-update tips tailored to that operating system. The site coaches the user on firewall installation, on the importance of using anti-virus and anti-spyware software, and on how to best obtain updates to Microsoft software, including Windows.

Microsoft released two other important security technologies in fiscal year 2005: a free Malicious Software Removal Tool (MSRT) and the beta version of an AntiSpyware tool. The MSRT scans a user's PC for viruses and worms, attempts to remove any that it finds, and sends the user a report indicating what has been found and removed. The AntiSpyware tool detects software programs that may have been installed without the user's knowledge and offers the opportunity to remove them. By the end of fiscal year 2005, the MSRT had been executed more than 800 million times. The AntiSpyware beta has been downloaded more than 21 million times and has removed tens of millions of spyware packages since it became available to users. Both of these new tools also need to be kept up-to-date in order to keep pace with evolving online threats, and our engineers have worked to make updating them as simple as possible.

Ensuring Greater Security Through User Education

The fact that security threats constantly evolve underscores the ongoing importance of consumer awareness. Consumers need to know that the online threats they face are not static, but that there are steps they can take to protect themselves. To this end, in fiscal year 2005 we increased our investment in consumer education.

Our online safety tips are now available in more than 20 languages through both the Microsoft.com Web site and the popular MSN® Web portal. We also have continued to partner with government agencies and NGOs to disseminate similar material through additional outlets. To name one example, the U.S. General Services Administration has distributed more than 20,000 safety brochures jointly developed by Microsoft and the National Cyber Security Alliance. Additional examples are described in the Web version of this report at www.microsoft.com/mscorp/citizenship/report/.

Using Technology to Fight Crime

By January 2003, Toronto Police Detective Sergeant Paul Gillespie had begun to feel that he was fighting a losing battle in his attempts to stop child exploitation online. While officers in his unit were trying to learn their way around the Internet, cybercriminals were becoming increasingly adept in their ability to victimize children online in relative anonymity.

"It seemed like the bad guys were just getting better at conducting their work on the Internet," Gillespie recalls. "In reality, we were not trained. And when we were given training and tools, the criminals were a step or two ahead of us. We were always playing catch-up."

In frustration, Detective Sergeant Gillespie sent an e-mail to Microsoft Chairman and Chief Software Architect Bill Gates, asking for help in the fight against computer-facilitated crimes against children. In response, Microsoft Canada collaborated with the Toronto Police Service and the Royal Canadian Mounted Police to create the Child Exploitation Tracking System (CETS), a custom-designed system that enables police

officers to communicate across city and county borders, in real time and through incident logs, about suspects' activities and whereabouts. Interpol, Scotland Yard, and other global police agencies also contributed their expertise.

Like many governmental systems, Canadian law enforcement agencies use a variety of tools that are not always compatible. Using open industry standards combined with Microsoft technology and know-how, the team built an integrated, national system that eliminates previous obstacles to tracking suspects across Canada. CETS helps police track and apprehend criminals who use the Internet to exploit or abduct children. In fact, in November 2004, while the system was still undergoing beta testing, it enabled police to rescue a 4-year-old girl and arrest a suspected child abductor and pornographer in Toronto.

International interest in CETS has been strong. Many other police agencies are exploring with Microsoft the feasibility of bringing comparable systems online in their regions of the world.

In fiscal year 2005, we continued our work with legislators around the world to help them develop laws and policies targeted at those who inflict harm online. We also expanded our engagement with law enforcement. We actively trained hundreds of law enforcement officers on cyber forensics techniques, partnered with law enforcement officials to bring legal actions against wrongdoers, and brought our own lawsuits against spammers and phishing perpetrators intent on ID theft. At the end of fiscal year 2005, Microsoft was pursuing more than 135 lawsuits related to consumer harm on the Internet.



"Criminals are using the Internet at an unprecedented rate to exploit the most vulnerable of our society: our children. I commend Canadian law enforcement and Microsoft Canada for their vision and leadership in creating a tool unlike any other in the world that will help keep our children safe from online predators."

— The Honourable Anne McLellan,
Canadian Deputy Prime Minister
and Minister of Public Safety and
Emergency Preparedness, at the
official CETS launch in April 2005.

Advancing the Knowledge Economy

At Microsoft, we are committed to helping countries improve their global competitiveness, promote local economic growth and development, and drive innovation. Microsoft recognizes that, for millions of people, the promise of technology is still unrealized. So we have made a comprehensive commitment to promote digital inclusion. Working with our partners around the world, by 2010 we plan to broaden the technology skills to reach a quarter billion people who are currently underserved by technology.


...at a glance recent examples of our work

Guatemala

There are at least 50 million people with disabilities in Latin America and the Caribbean. Most are unemployed and 82 percent live in poverty. That used to describe Reyna Ramos, who has a hard time walking and was unemployed for seven years because of her disability. Today, Reyna is an entrepreneur with a successful business, thanks to a partnership between the Organization of American States and Microsoft that provided training in basic computer and business skills. Reyna now owns and operates an Internet café in her home, advises her neighbors on how to obtain micro-loans to start their own businesses, and plans to establish a nationwide network of Internet cafés in Guatemala.

Australia

Since 2000, Microsoft has invested more than AU\$20 million to support 14,000 Australian businesses as partners, suppliers, and investors in leading-edge technology. In partnership with state governments in Australia, Microsoft has invested more than AU\$10 million in high-technology centers to foster innovation across a range of education, defense, justice, healthcare, and e-government projects. In addition, we have established more than 160 Unlimited Potential community technology centers throughout Australia, enabling more than 100,000 people to develop or broaden their ICT skills.

More information about the Microsoft's Global Citizenship Initiative and our work to advance the knowledge economy is available at www.microsoft.com/mscorp/citizenship/. 

Knowledge Economy



Unlimited Potential

Since the launch of Microsoft's Unlimited Potential program in 2003, the company has donated more than \$126 million in cash and software and distributed more than 3,500 copies of its ICT curriculum to support community learning and training programs in 95 countries.

Partners in Learning

Through Partners in Learning, Microsoft is partnering with nations, communities, and educators around the world to create sustainable educational programs to train teachers and prepare students to succeed in the global economy.

As governments everywhere strive to harness the opportunities and meet the social and economic challenges of the twenty-first-century knowledge economy, they are focused on promoting job growth and skills training, encouraging the development of local industry, and enhancing their global competitiveness. Governments understand that devising strategies to successfully address these issues today will provide a solid foundation for future growth and prosperity. Because computers and technology are the engines that drive the knowledge economy, many of these economic development strategies center on increasing digital literacy and the use of technology.

Meeting these objectives is a long-term effort that often cannot be accomplished by governments alone. One hallmark of the digital age has been the increase in public-private partnerships to address issues such as skills training, access to technology, and funding for new enterprises. This new spirit of collaboration demonstrates that the private sector, as well as governments, has an important role to play in creating opportunity for local communities worldwide.

Creating Opportunity for Businesses

Microsoft is a very successful company, but our accomplishments depend on the success of thousands of other technology companies around the world. At the heart of our business model is our reliance on other companies that build hardware and software, provide solutions, and offer services based on the Windows platform.

This global interdependent network of 650,000 Microsoft partners creates huge opportunities for local communities. It creates jobs, generates tax revenue for governments, offers skills and workforce development programs, and makes significant investments in innovative new technologies. Recent research conducted by IDC, a

leading provider of marketing intelligence for the information and communications technology industry, shows that for every \$1 of revenue Microsoft earns, local software, hardware, and services firms earn between \$6 and \$18 of downstream revenue.

Creating Opportunity for Individuals

Creating economic opportunities for nations, communities, and businesses begins by opening doors of opportunity for individuals. Microsoft is deeply involved in promoting digital inclusion around the world, working in partnership with governments, industry leaders, and community organizations to offer skills training ranging from basic computer skills to the most advanced professional training and certifications. By 2010, through innovative technologies and partnerships, Microsoft plans to provide ICT skills training to a quarter billion people who were previously underserved by technology.

Through our flagship digital inclusion programs, Partners in Learning and Unlimited Potential, we provide technology access and training to all types of learners, no matter where they happen to be on the continuum of ICT skills and knowledge. We offer skills training for schoolchildren, for teachers who need to learn how to incorporate technology as part of their classroom instruction, and for community learners. We work with new users and historically underserved populations—such as at-risk youth, refugees, senior citizens, and people with disabilities—as well as midcareer professionals who need to sharpen their skills or gain new ones. Together, these digital inclusion programs lay the groundwork for increased economic opportunity and social improvements.

An important part of our Global Citizenship Initiative is creating vital and self-sustaining links between digital inclusion programs that train individuals and economic development efforts that create jobs and strengthen local communities.



"After participating in the teacher training course from the Microsoft Partners in Learning program, I have realized the importance of ICT literacy for our students. I'm committed to making computers and ICT courses available for my students from kindergarten to grade 12 from next semester onward."

—Mr. Supoj Puyati, Headmaster,
Ban Huaysalao School, Thailand



Microsoft Citizenship in Africa

To date, more than 40,000 community members and 550 trainers from 20 African countries, including the region of North Africa, have received IT skills through Unlimited Potential community technology centers.

Twenty thousand more are expected to be trained by the end of 2005.

South Africa

Recently wed and with a small daughter to look after, Sibusiso Dlamini was growing increasingly desperate. He had spent the better part of a year looking for a job after the insurance company where he worked had eliminated his sales executive position.

One evening, Sibusiso and his wife saw a television program about a community center that provided technology training to the disadvantaged communities of Soweto. The Soweto Digital Village in Chiawelo was equipped with state-of-the-art technology, including computers, Internet access, and the latest Microsoft software and books.

"When I saw that, I knew right away it was where I needed to be, I was in dire need, but this Digital Village could help me. It was the answer I'd been looking for." —Sibusiso Dlamini

After six months, Sibusiso had learned enough IT skills to become a tutor at the Digital Village. He wanted to attend college, but he didn't have the money. Instead, Sibusiso offered to be the systems administrator of the Soweto Digital Village while working toward a Microsoft Certified Systems Engineer certificate. Before long, he began traveling across South Africa to help open other Digital Village centers. "I was excited by all of the energy people at the center gave me, by the opportunities it created."

Persistent issues across most of the continent—health, sanitation, education, infrastructure, and governance—have led many African governments, NGOs, and the private sector to focus on technology as a way to leapfrog traditional stages of development, spur growth, and draw Africa more squarely into the global economy.

Microsoft funded the Digital Village through its Unlimited Potential program and in collaboration with the NGO Africare.

Structured on the idea of the traditional African village, the Digital Village aims to be a community center where anyone can come to learn ICT skills or access the Internet as part of "lifelong learning" or continuing education.

One of the goals of the Digital Village is to become self-sustainable by finding means to generate enough income to offset operating expenses. With that in mind, the Digital Village opened a Business Services Center, offering desktop publishing, graphic design, faxing, copying, and printing services for the local community.

In its first year of operation, the Soweto Digital Village helped more than 500 children and young adults learn the basics of using database and word-processing programs. More than 5,000 participants have since taken advantage of services available at the Digital Village in their efforts to start small businesses, promote community meetings or local cultural events, link to online university courses, or simply bond with other members of the community.

As for Sibusiso and his wife, she is now a full-time student, they have added another daughter to their family, and he is working as a systems engineer at ATIO Corporation. "I took a lot away from the Digital Village and it has changed my life tremendously," he says. "Though I'm still miles away from achieving my ultimate goals, the Digital Village put me on the road to getting there."

Brazil

When he was just a young boy, Cristiano da Silva Souza had to work to help support his family, but he never gave up his dream of getting an education, and he never stopped studying. Through great effort and dedication, he finished primary school and became an accounting technician. In 2002, when he was in his early 20s, Cristiano took a university entrance exam, and in 2003 he started attending an IT course

Local Language Program

In March 2004, Microsoft launched the Local Language Program, a global initiative that enables governments, universities, and local language authorities to develop language localization resources for Windows XP Home, Windows XP Professional, and Office 2003 Editions. Using Web tools provided by Microsoft, sponsoring groups and volunteer translators can develop community glossaries of standardized technical terminology. These glossaries in turn provide the foundation for Language Interface Packs, which enable computer users to adapt their copies of Windows and Office to display many commonly used features in their native languages. To date, more than 40 Language Interface Packs have been developed for Windows and Office, and we continue to receive many additional requests.



China

In July 2004, Microsoft launched Unlimited Potential in China with a program designed to help improve employment opportunities for unskilled migrant workers. China's phenomenal economic growth has led to a massive influx of rural migrant workers into cities. Lacking the skills they need to compete in an urban job market, many of these young people are forced to take menial jobs with no real future.

Through community technology centers, Microsoft is working with local organizations to provide technology skills training and to create opportunities for young Chinese men and women. Tan Jieying, one of the migrant workers in the program, explained: "All I want is to use my intelligence and diligence to change my fate."

with a focus on systems analysis. To help pay his tuition and other expenses, Cristiano worked as a bus fare collector, but his job gave him no opportunity to use his new skills.

"I fell in love with IT and became deeply interested in development and programming issues. On the other hand, the course was too basic and I did not have the chance of putting things into practice," Cristiano says. That is when he decided to quit his job and devote more time to his studies. "Even if I had to earn less, I wanted to have the chance of growing in professional terms."

In August 2004, Cristiano heard about the XML Technology Center in Petrópolis, where he was living. The center is part of a nationwide program in Brazil, supported by Microsoft, which trains students and professionals on XML technology, an industry standard that enables communication among diverse applications and operating systems.

Cristiano was granted one of the center's competitive and coveted scholarships. Since then, he has earned three different Microsoft certifications, which are internationally recognized credentials based on rigorous exams that certify a candidate's technical expertise and can lead to outstanding employment opportunities. On his first certification test, Cristiano had the highest score possible.

Founded in 2001, the XML Technology Center in Petrópolis is one of 17 centers Microsoft supports in Brazil, 12 of which are focused on XML technology. These centers address the needs of the local academic community and the regional market by offering scholarships and research opportunities for teachers and students, along with courses, certification and technical guidance for software developers, and specialized professional services and concept tests for companies that want to test their solutions.

In fiscal year 2005, 7,444 people took part in courses at the XML Technology Centers, and 87 students participated in the scholarship program. During that period, 63 projects were carried out, 42 percent of which were for public utilities. In addition, 122 local software development companies used the services provided by the XML labs to improve their knowledge and to validate their cutting-edge technologies.

The XML Technology Centers also help students enter the labor market: approximately 70 percent of all students who developed projects in the labs in fiscal year 2005 found jobs promptly after completing the program. Cristiano expects to be hired soon.

"Meanwhile, I will take advantage of the opportunities offered by the XML Technology Center and try to learn more and more, with a view to being ready for the labor market," he says.

The Philippines

In 2005, the Philippine Software Industry Association and the Commission on Information and Communications Technology called on Microsoft to help develop a plan to improve the Philippines economy by strengthening the nation's software industry. Dubbed "Fly High: Philippine Software 2010," the plan identifies five priority areas for development that will help to expand and accelerate the growth of the software industry in the Philippines by the end of the decade:

- Grow domestic demand for software.
- Develop skilled software professionals.
- Increase software exports.
- Reinforce intellectual property compliance.
- Build infrastructure for industry growth.

Microsoft will continue to work with its government, industry, and NGO partners in the Philippines to carry out many of the action steps outlined in the plan, including a variety of business development, skills training, and workforce development initiatives.



Humanitarian Relief

Like many other people around the world, Microsoft employees watched the tragic events of the Indian Ocean tsunami with an overwhelming desire to help. More than 8,000 Microsoft employees responded to the disaster, donating more than \$2.9 million for relief and recovery efforts. Microsoft contributed another \$4.7 million in matching funds and direct corporate support, for a total contribution of \$7.6 million to date. We also formed the Asia Disaster Technical Response Team to develop technology-based solutions for the relief community, and Microsoft employees continue to provide volunteer support for on-the-ground relief efforts.

Our Company

Our Mission and Core Values

Microsoft's corporate mission is to enable people and businesses throughout the world to realize their full potential. Our mission and our core values underscore our approach to business and our role as a committed corporate citizen in each of the countries and communities where we operate. Our ability to deliver on our mission depends in part on how faithfully we live these values:

- > We act with integrity and honesty.
- > We have passion for our customers and partners, and for technology.
- > We practice openness and respect for others.
- > We are willing to take on big challenges and see them through.
- > We are self-critical and committed to personal excellence and self-improvement.
- > We are accountable for commitments, results, and quality to customers, shareholders, partners, and employees.

More information about Microsoft's mission and values is available at www.microsoft.com/mscorp/mission/. 

Business Operations

Microsoft generates revenue by developing, manufacturing, licensing, and supporting a wide range of software products and services, including:

- > Operating systems for servers, personal computers (PCs), and intelligent devices.
- > Server applications for distributed computing environments.
- > Information worker productivity applications.
- > Business solutions.
- > Software development tools.
- > Consulting and product support services.
- > Training and certification for system integrators and developers.
- > The Xbox® video game console and games, PC games, and peripherals.
- > Online communication services and information services through our MSN portals and channels around the world.

Over the past few years, we have laid the foundation for long-term growth by making global citizenship an integral part of our business strategy and company culture by delivering innovative new products, creating opportunity for partners, increasing customer satisfaction, and improving our internal processes.

More information about Microsoft's business operations and structure is available at www.microsoft.com/mscorp/default.aspx.

Financial Report

Our business grew in fiscal year 2005, increasing total revenue by \$2.95 billion, or 8 percent, to \$39.79 billion. For fiscal year 2005 revenue, operating income, and other financial information, see the 2005 Microsoft Annual Report at www.microsoft.com/msft/ar.aspx (available in November 2005).

Corporate Governance

At Microsoft, corporate governance is one of our top priorities. We are always at work to strengthen and safeguard our culture of accountability, business integrity, and responsible business practices. We encourage the efficient use of resources, monitor our performance in achieving company objectives, and ensure management accountability to our shareholders.

Board of Directors


Our Board of Directors establishes the standards and policies for corporate governance, ethics, and compliance throughout Microsoft. The Board has developed corporate governance practices to help fulfill its responsibilities to oversee the work of management in conducting Microsoft's business and to serve the long-term interests of our shareholders. Having these governance practices firmly in place and clearly stated invests the Board with the necessary authority and autonomy to review and evaluate the company's business operations as needed and to make decisions independent of Microsoft management.

For more information about the Microsoft Board of Directors, refer to the 2005 Microsoft Annual Report at www.microsoft.com/msft/ar.aspx (available in November 2005).

General Counsel's Office of Legal Compliance

The mission of the office is to provide supervision and oversight in implementing and maintaining effective and collaborative compliance and corporate governance programs. This responsibility is wide-ranging, but two particular areas of focus are administering the Standards of Business Conduct in relation to specific situations and ensuring that Microsoft meets or exceeds all conditions of the 2002 Consent Decree that resulted from the antitrust lawsuit by the U.S. Department of Justice.

The Office of Legal Compliance works closely with leaders and key colleagues across the company, who are accountable for compliance with a range of legal and regulatory obligations in specific areas, including human resources, internal audit, product development, security, finance, environmental stewardship, and marketing. The Office of Legal Compliance was formed by Board resolution in 2001 and reports regularly to the Microsoft Board of Directors Audit Committee about the company's compliance activities and programs.

The Corporate Governance Guidelines, as well as the charters for all five Board committees, including the Corporate Staff Council and the Executive Team, are available at www.microsoft.com/msft/corpinfo.aspx. 

Looking to the Future

Global citizenship at Microsoft is a progressive journey, each step forward represents worthwhile progress in our ongoing efforts to improve our company, to increase the safety and security of people who use our products, and to enable people and businesses throughout the world to realize their full potential.

To evaluate the progress we've made against our previous objectives and to review our current goals, see

<http://www.microsoft.com/mscorp/citizenship/report/>.

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