TO OUR SHAREHOLDERS, CUSTOMERS, PARTNERS AND EMPLOYEES:

Last year was a big year — we delivered strong results, launched fantastic new products and services, and positioned Microsoft for an incredible future.

For fiscal year 2012, revenue grew to a record $73.7 billion. We also maintained strong cost discipline resulting in cash flow from operations of $31.6 billion, an increase of 17 percent from the prior year. In addition, we returned $10.7 billion to shareholders through stock buybacks and dividends.

We delivered these results while preparing a pipeline of new and updated products that will launch in the year ahead. To best understand what we are about to deliver and what we’re building toward, it’s important to recognize a fundamental shift underway in our business and the areas of technology that we believe will drive the greatest opportunity in the future.

**Our Business: Devices and Services**

Last year in this letter I said that over time, the full value of our software will be seen and felt in how people use devices and services at work and in their personal lives. This is a significant shift, both in what we do and how we see ourselves — as a devices and services company. It impacts how we run the company, how we develop new experiences, and how we take products to market for both consumers and businesses. The work we have accomplished in the past year and the roadmap in front of us brings this to life.

*Devices With End-User Services*

We will continue to work with a vast ecosystem of partners to deliver a broad spectrum of Windows PCs, tablets and phones. We do this because our customers want great choices and we believe there is no way one size suits over 1.3 billion Windows users around the world. There will be times when we build specific devices for specific purposes, as we have chosen to do with Xbox and the recently announced Microsoft Surface. In all our work with partners and on our own devices, we will focus relentlessly on delivering delightful, seamless experiences across hardware, software and services. This means as we, with our partners, develop new Windows devices we’ll build in services people want. Further, as we develop and update our consumer services, we’ll do so in ways that take full advantage of hardware advances, that complement one another and that unify all the devices people use daily. So right out of the box, a customer will get a stunning device that is connected to unique communications, productivity and entertainment services from Microsoft as well as access to great services and applications from our partners and developers around the world.

A great example of this shift is Windows 8. Windows 8 will come to market Oct. 26, 2012, with beautiful hardware that will light up with our consumer cloud services. Windows 8 unites the light, thin and fun aspects of a tablet with the power of a PC. It’s beautiful, it’s functional, and it’s perfect for both personal and professional use. Xbox Music, Video, Games and SmartGlass apps make it possible to select a movie from a PC, start playing it on the TV, and finish watching it on a phone. SkyDrive, our cloud storage solution, effortlessly connects content across a user’s devices. Bing’s powerful search technologies in Windows 8 will help customers get more done. Skype has a beautiful new Windows 8 app and connects directly into the new Office.

Office, too, is taking a major leap forward. The new Office was designed from the ground up for Windows 8 and takes full advantage of new mobile form factors with touch and pen capabilities. It unlocks new experiences for reading, note taking, meetings and communications and brings social directly into productivity and collaboration scenarios. The combination of a Windows 8 tablet with OneNote and SkyDrive has truly revolutionized how to take notes, annotate documents and share information. The ultimate experience with the new Office for both consumers and businesses will come when it is paired with a Windows 8 device and delivered as a cloud subscription service with Office 365.

*Services for the Enterprise*

Fantastic devices and services for end users will drive our enterprise businesses forward given the increasing influence employees have in the technology they use at work — a trend commonly referred to as the Consumerization of IT. It’s one more reason Microsoft is committed to delivering devices and services that people love and businesses need.

Today, businesses face a number of important opportunities and challenges. Enterprise IT departments are tasked with deploying technology that drives the business strategy forward. They decide what solutions will make employees more productive, collaborative and satisfied. They work to unlock business insights from a world of data. At the same time they must manage and secure corporate information that employees access across a growing number of personal and corporate devices.

To address these opportunities, businesses turn to Microsoft. They count on our world-class business applications like Microsoft Dynamics, Office, Exchange, SharePoint, Lync, and our business intelligence solutions. They rely on our technology to manage employee corporate identity and to protect their corporate data. And, increasingly, businesses of all sizes are looking to Microsoft to realize the benefits of the cloud.

Helping businesses move to the cloud is one of our largest opportunities. All the online services people use today — both from Microsoft and other companies — run on servers in datacenters around the globe. The volume of Internet services used will continue to grow as people connect to the Internet from more devices for more purposes — fueling incredible opportunity in our server business. Unique to Microsoft, we continue to design and deliver world-class cloud solutions that allow our customers to move to the cloud on their terms. For example, a company can choose to deploy Office or Microsoft Dynamics on premises, as a cloud service or a combination of both. With Windows Server 2012, Windows Azure and System Center infrastructure, businesses can deploy applications in their own datacenter, a partner’s datacenter or in Microsoft’s datacenter with common security, management and administration across all environments, with ultimate flexibility and scale. Our business customers tell us these capabilities are critical to harnessing the power of the cloud so they can reach new levels of efficiency and tap new areas of growth.

**Our Future: Big Opportunity**

There’s a remarkable amount of opportunity ahead for Microsoft in both the next year and the next decade. As we enter this new era, there are several distinct areas of technology that we are focused on driving forward — all of which start to show up in the devices and services launching this year. Leading the industry in these areas over the long term will translate to sustained growth well into the future. These focus areas include:

* Developing new form factors that have increasingly natural ways to use them including touch, gestures and speech.
* Making technology more intuitive and able to act on our behalf instead of at our command with machine learning.
* Building and running cloud services in ways that unleash incredible new experiences and opportunities for businesses and individuals.
* Firmly establishing one platform, Windows, across the PC, tablet, phone, server and cloud to drive a thriving ecosystem of developers, unify the cross-device user experience, and increase agility when bringing new advancements to market.
* Delivering new scenarios with life-changing improvements in how people learn, work, play and interact with one another.

We are uniquely positioned to lead in these areas given the breadth of our devices and services portfolio, as well as our large, global partner and customer base and the growing Windows ecosystem.

It truly is a new era at Microsoft — an era of incredible opportunity for us, for the 8 million developers building apps for our devices, for the more than 640,000 partners worldwide and, most important, for the people and businesses using our products to reach their full potential.

We see an unprecedented amount of opportunity for both this year and the long term. Although we still have a lot of hard work ahead, our products are generating excitement. And when I pause to reflect on how far we’ve come over the past few years and how much further we’ll go in the next one, I couldn’t be more excited and optimistic.

As always, thank you for your support.

Steven A. Ballmer
Chief Executive Officer
October 9, 2012