Dear shareholders, customers, partners and colleagues:

It’s been a remarkable year for all of us at Microsoft, a year of change and opportunity for our company, our industry and the world.

We as a company stand for deeply understanding the needs of customers, translating that understanding into products that people love and ultimately into the success our customers have with our products. It’s that last part that is our key motivation. The entire Microsoft team is inspired to bring their best ideas and efforts every day to build products people love, and to advance our mission to **empower every person and every organization on the planet to achieve more.** And we’re seeing the impact.

We sharpened our focus this past fiscal year, prioritizing our talent and investments in areas where we have differentiation and potential for growth. We executed with financial discipline, with revenue of $93.6 billion, $60.5 billion of gross margin, $18.2 billion in operating income and $12.2 billion in net income. And we significantly increased our total cash return to shareholders by nearly 50 percent to $23.3 billion.

We also made key decisions that are moving us forward as the company that builds best-in-class platforms and productivity services for our mobile-first, cloud-first world.

* We launched Windows 10 as a service that unites your experience across a wide range of devices with innovations that increase productivity and flexibility while remaining familiar.
* Surface is proving that consumers and businesses alike want a tablet that can replace their laptop. We achieved $3.6 billion in Surface revenue -- equally gratifying is the fact that Surface won fans while also creating a new hardware category.
* We restructured our phone business, as we aligned our first-party hardware portfolio into the larger Windows ecosystem. Going forward we will focus on building premium, flagship phones for Windows fans and commercial customers.
* We delivered Office everywhere on all devices, and Office 365 consumer subscriptions grew to more than 15 million, adding nearly 10 million subscribers in the fiscal year. Commercial customers are rapidly adopting this service with seats growing by 74 percent.
* Azure cloud platform revenue and compute usage increased by over 100 percent in the fourth quarter year over year.
* We are gaining ground in business process applications with triple-digit growth of the Dynamics CRM Online installed base and the overall Dynamics business growing revenue by double digits.
* We delivered innovative new cloud services at an increasing pace spanning enterprise mobility, big data, cloud infrastructure and application developer services.

In this year’s letter, I want to look forward and paint a picture of how we’re building on this momentum while also reflecting on what we’ve learned.

**Empowerment.** Microsoft, since its founding, has stood for individual and organizational empowerment. What’s different about our company when compared with the industry is that we make things that help other people make things. We also help them make things happen. We are well poised to ignite a new revolution in which digital technologies democratize access to people across economic strata, organizations of all sizes, entrepreneurs, researchers and students everywhere. This is empowerment. To deliver on this promise of empowerment, we’ve galvanized around three interconnected ambitions that will, in turn, drive our segment financial reporting this fiscal year.

***1) Reinvent productivity and business processes.***We are helping customers be even more effective with their individual time, while bringing together the power of teams and entire organizations to drive business outcomes and success. Time is quickly becoming our scarcest commodity, and people and organizations need the right tools and services that help them achieve increasingly complex and challenging outcomes more quickly than ever.

We are building an array of productivity, communications, collaboration and business process applications so that they are optimized for what our users want to achieve rather than being bound to any current product category definitions. We let you pick up any device and create, collaborate, communicate or do business using our cloud services. We enable you to complete your sales order by connecting seamlessly to CRM data within Outlook. We enable you to co-author in real time a student paper with a classmate or an RFP response with colleagues across your organization. We empower transparent communications and discovery of enterprise knowledge using tools such as Yammer, Delve and Power BI. Skype and Skype for Business enable you to have effective meetings with customers, partners and colleagues anywhere, anytime.

Here is a case in point. London’s Metro Bank is reinventing the way banking works. Metro colleagues guide customers through important financial decisions using Dynamics CRM Online, Office 365, Power BI and Skype for Business. Customers like Metro are proving that we are at the dawn of a new generation, one with productivity and business process systems that fundamentally changes the nature of work, and more importantly drives superior business outcomes.

Looking ahead, we’re poised for new growth given our bold ambition in this space. With Office 2016 and Office 365, we will continue to enrich the features and capabilities to help people create and communicate. As an example, many Office 365 customers will now get rich new voice capabilities with Skype for Business and other new features that have enabled us to expand our market opportunity for Office 365 by more than $50 billion. The CRM and ERP markets combined are over $60 billion, and represent a massive opportunity for reinvention as they shift to the cloud and mobile experiences.

***2) Build the intelligent cloud platform.*** Microsoft is building a cloud platform that enables the world’s applications to become intelligent using the next-generation infrastructure, data and developer services.

We are unique in that we are the only company building out a hyper-scale public cloud while also meeting customer needs for private cloud and hybrid solutions. The Azure cloud platform is now available in 140 countries with over 20 datacenter regions, more than any other public cloud. We are the first multinational company to operate a public cloud in China. Even as organizations transition to the cloud, we continue to see impressive growth in our server business with Windows Server, System Center Server and SQL Server. Our servers are the leading edge of this intelligent cloud, and this is important because there are going to be many legitimate reasons for people wanting digital sovereignty. We believe this is the future of true distributed computing infrastructure, designed to meet the needs and complexities of the real world.

Microsoft Enterprise Mobility had a breakout year, and now more than 17,000 customers are using the service. EMS delivers infrastructure for enterprises of all sizes to manage and secure all of their identities, applications, data and devices. In doing so, EMS enables a new way for organizations to work in a world where they are increasingly mobile and using SaaS services.

We are helping transform businesses through the use of data. Cortana Analytics Suite provides customers and application developers with a fully managed big data and analytics suite that transforms data into intelligent action. These capabilities are being used by customers across the full spectrum of industries throughout the economy. And we are capitalizing on the advent of the Internet of Things and the associated changes in business models that require increasingly advanced cloud data and analytics capabilities.

We made tremendous progress in our developer engagement this past year by delivering new innovative services to developers across all device platforms and also opening our technology to create more participation from open source communities. Visual Studio Online now provides a leading set of services for modern development.

I am excited about the growth opportunities ahead. We’ve broadened our addressable market by building and acquiring technologies in key growth categories like security, data and analytics, while also delivering greater integration and support for Linux and open source technologies such as Docker containers and Hadoop. Security is a key priority for our enterprise customers and represents a $30 billion market opportunity. Likewise, business intelligence and analytics is another rapidly growing market for us with an opportunity of more than $15 billion. We are expanding our datacenter presence to India and Canada, and will evaluate future expansion opportunities as well. We also have major new releases planned across Windows Server and SQL Server in the coming year that will provide continued opportunity for growth and include innovations developed in our public cloud to empower customers’ IT and developer teams to achieve more.

***3) Create more personal computing.***Our ambition is to make your Windows experience, whether at home or at work, more natural, more mobile, and more trusted. Whether using our devices for productivity, gaming, browsing or anything else, we want to move customers from needing, to choosing, to loving Windows.

With the launch of Windows 10, we’re just at the start of a new era of computing that’s more personal, focused on the mobility of human experiences across devices. Innovations such as Continuum on Lumia phones running Windows 10, for example, enable you to simply take your phone and attach it to a screen and keyboard providing robust productivity experiences so your phone can function as a laptop. Windows 10 is more personal and more productive with Cortana, Office and universal apps. Windows 10 is delivering truly breakthrough new experiences, like inking on our new browser, Microsoft Edge, and gaming across Xbox and PCs. It also opens up entirely new device categories such as HoloLens. Security and trust are essential. Windows 10 is safe, secure and always up to date. And it provides a single device management platform across all devices, from phones, to laptops, to Internet of Things devices.

We’re excited and appreciative to see the enthusiastic response to Windows 10 with more than 110 million devices already active with the latest Windows.

Going forward, I believe we will broaden our economic opportunity and return Windows to growth. This holiday, we will see the widest range ever of Windows devices, including hundreds of new hardware designs from our partners. With Surface, our vision that customers would want a tablet that can replace a laptop has added to the Windows ecosystem and created new opportunities for our partners to innovate. We’ll also grow through monetization opportunities across the commercial and consumer spaces. In the enterprise, customers will continue to value our unparalleled management, security and servicing capabilities. And for consumers, Windows 10 creates monetization opportunities with Store, search and gaming.

**New growth.** With all of this new innovation hitting the market, we are on track to reach two important goals for fiscal year 2018: a commercial cloud revenue annual run rate of $20 billion and 1 billion Windows 10 active devices per month.

Our approach to growth is simple — we’ll make products and services that are differentiated in markets that are large and growing and pioneer new categories. We’ll continue the transition from a transactional relationship with customers to one that recognizes the more consistent, lifetime value of a customer. Each of our three ambitions positions Microsoft to increase the lifetime value of our customers and win new customers in every part of the world. We work hard to earn the trust you’ve shown with your investment. Our past success and ongoing execution make it possible for us to deliver the financial performance, strength of balance sheet and return of capital today. It’s our passion for innovation and ambition in rapidly growing markets is what has the potential to deliver new value long into the future.

**Culture.** Simply stated, I want Microsoft to be the greatest place to work for smart people who are hungry to make a difference. It’s been said that culture is the widening of the mind and of the spirit. We spend far too much of our lives at work not to find deep meaning in what we do. The broad aperture of our mission and appetite for growth invites diversity in all delineations so all employees can uniquely contribute and bring their best every day. When people are doing what they love and pursuing a mission they believe in with a growth mindset, I know both great innovation and growth will happen.

When I first started in my new role last year I told employees it was time for us to rediscover our soul — what makes us unique. In “The Soul of a New Machine,” author Tracy Kidder shows us that technology is nothing more than the collective soul of those who built it. The technology is fascinating, but even more fascinating is the profound obsession of its designers. In the year ahead we will continue to ask ourselves what are the challenges mankind faces, how can technology help, and what is the contribution of Microsoft? We can clearly see that there’s a transformation underway in our business and renewed spirit in our hallways. We are just starting to get a glimpse of how Microsoft technology empowers customers to succeed and make their own difference in the world. We are eager to see what we can do in the year ahead to drive greater growth and greater impact in our world.

Satya Nadella

Chief Executive Officer

October 19, 2015