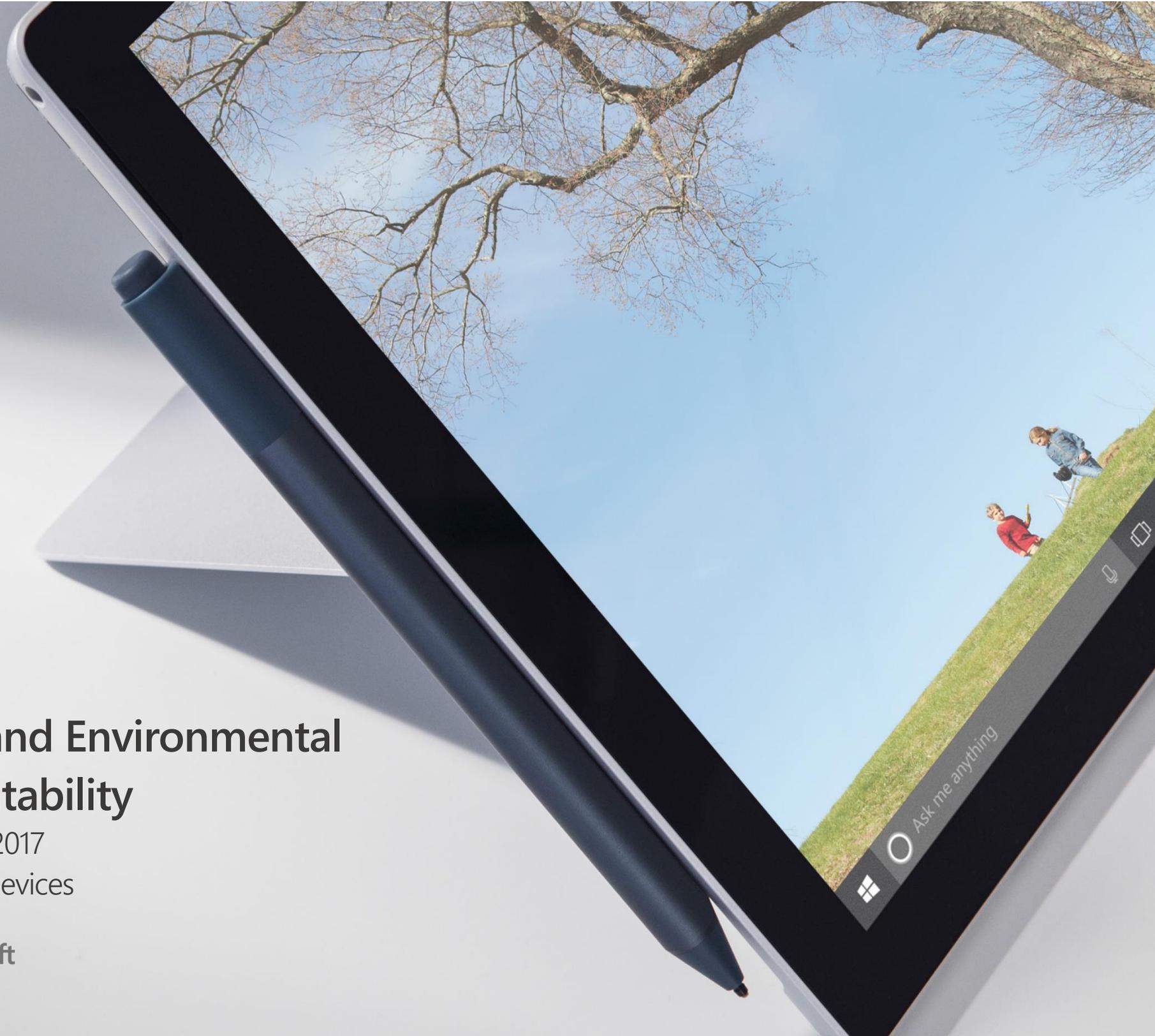


Social and Environmental Accountability

Fiscal Year 2017

Microsoft Devices



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Social and Environmental Accountability

Fiscal Year 2017

In Microsoft Devices, sustainability is integral to our mission to build products that create magical experiences that empower every person and organization to achieve more. From product design and new product introduction through sourcing, manufacturing, delivery, and product end of life, Devices' approach to sustainability furthers our Microsoft mission of empowerment.

To anchor these efforts, we embed sustainability requirements directly into the roles, responsibilities, and business practices of the Devices organization and partners. We ensure our teams and suppliers meet our requirements through active engagement including training, systematic implementation and improvement, and ongoing monitoring of the progress made to address potential impacts. Further, we partner with non-governmental organizations (NGOs) and industry associations to address broader sustainability challenges facing the electronics and other industry sectors.

About the mapped indicators throughout this report:

SUSTAINABLE DEVELOPMENT GOALS



THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Our commitment to sustainability is in line with current global aspirations and initiatives. The 2016 Sustainable Development Goals (SDGs)—accepted by the UN General Assembly (193 nations)—call for several bold breakthroughs by the year 2030 across 17 goals aimed at improving people’s quality of life, protecting the environment, and fostering equitable growth. Our industry has an essential role in enabling achievement of the SDGs. We have included throughout this report both the mapping of our current activities to the SDGs.

GLOBAL REPORTING INITIATIVE

Microsoft follows the Global Reporting Initiative’s (GRI) G4 Sustainability Reporting Guidelines for empowering sustainable strategies. The GRI guidelines provide a set of internationally recognized indicators covering social, economic, and environmental impact. This standardized reporting framework originated from a collaboration of experts representing stakeholders from business, labor, investors, NGOs, accountancy, academia, and other groups. We have mapped our annual Devices operations results to the GRI indicators following the G4 guidelines throughout this report for transparency and credibility across a wide range of stakeholder groups. Relevance has been defined by analyzing the material aspects of our operations.

Key to our integrated report



Global Reporting Initiative (GRI) content that corresponds to each material issue



Contribution to the United Nations Sustainable Development Goals (SDG)



1 Social and Environmental Accountability Program

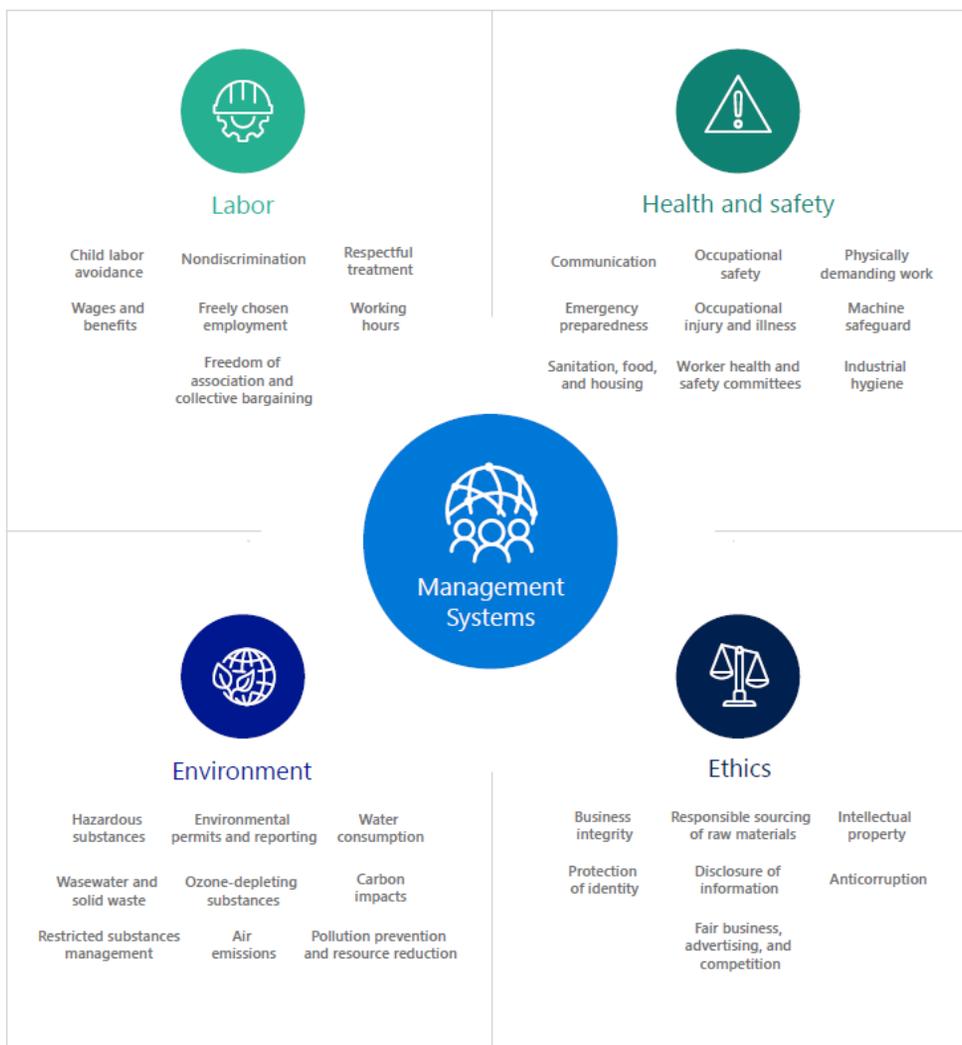
Microsoft supports ensuring that the persons working in factories to make our devices and the communities surrounding them are treated with equity and dignity. We want to be a change agent to improve working conditions, workers' well-being, responsible sourcing, and business ethics. The Social and Environmental Accountability program (SEA) is the primary driver within Microsoft Devices for actualizing these goals.

SEA is the responsibility of every employee in Devices. Each factory manager, technical sourcing manager, and sourcing manager is directly accountable for integrating SEA into their strategy and operations, and for managing their suppliers' factory SEA performance.

The program is supported by SEA experts on labor rights, employee health and safety, responsible sourcing of raw materials, and the environment. These experts evaluate risks, provide subject matter expertise, and assess the design and effectiveness of the SEA program to meet Microsoft contractual requirements. The majority of these experts are located in China – the location of most of our suppliers' factories. For more information regarding our suppliers, we identify our top 100 production suppliers for our commercially available devices at the [Microsoft Responsible Sourcing site](#).

1.1 SEA Strategy

Microsoft's supplier SEA program extends the core values of the [Microsoft Standards of Business Conduct](#) to our management of suppliers in our supply chain. We aim to deliver responsible, sustainable, and transparent practices within our supply chain covering the following areas: labor, health and safety, environment, and ethics.



All directly contracted suppliers follow requirements set by Microsoft to guide their expected accomplishments in these areas. We integrate the [Microsoft Supplier Code of Conduct](#) (SCC) and other requirements into our procedures and supplier specifications and assess and monitor supplier performance against these requirements. The results are reviewed for opportunities for our own and suppliers' improvement. These suppliers are required to incorporate our requirements into their own supplier management programs implementing the Microsoft SEA requirements deeper into the supply chain.

We categorize all contracted suppliers and related factories according to a three-step framework of improvement. These categories align to programs to help suppliers and factories to progress through stages of progressive SEA maturity. The steps are:



- **Compliance.** A supplier's factory meets all applicable legal and Microsoft requirements. However, since the factory has not demonstrated its ability to move from reactive risk management to strong management systems, suppliers and factories at this stage tend to have repeat findings identified in audits.
- **Self-management.** A supplier's factory has invested in skilled SEA personnel at the factory and demonstrates the willingness to proactively develop its SEA capabilities. The factory has systems in place that enable the identification and proactive self-management of risk.
- **SEA Culture.** A supplier's factory proactively participates in capability-building and training programs that become part of a culture of continuous improvement.

1.1.1 Our approach to supplier engagement

We systematically and proactively engage with our suppliers to communicate sustainability requirements and assess supplier's capabilities against our requirements. Our approach is outlined below.

1. Pre-onboarding assessment and requirements

Prior to supplier selection, we conduct an assessment to determine the risk level for the supplier's factory. This ensures that business decision makers can consider a supplier's factory SEA capability prior to selection. Once a supplier is selected, the supplier's contract incorporates standard SEA terms, that include the [Microsoft Supplier Code of Conduct](#), SEA specifications, other requirements and our right to audit the supplier facility to ensure conformance. We communicate changes to these requirements as they occur and provide updates to the suppliers at least annually.

2. Assessments, audits, and performance metrics

All suppliers undergo a risk assessment, initial capability assessment, and corrective action audit if necessary. We use a combination of third-party auditors and Devices SEA team members to conduct these audits and assessments. All results are kept in the Microsoft Azure cloud-based Audit Management System (AMS) and communicated through a Power BI dashboard that distributes key and real-time information to internal stakeholders.

3. Corrective action and validation

Devices Manufacturing, Strategic Sourcing managers and the SEA team work closely with suppliers on corrective action plans to resolve issues identified during the audits and assessments. Suppliers are required to identify the root causes, corrective actions, and preventive actions for all issues found.

4. Continuous improvement

Audit findings and corrective action plans enable us to identify trends and opportunities to help suppliers enhance their long-term SEA capabilities. We analyze these results using Power BI and routinely share experiences and best practices with our suppliers.

1.1.2 Monitoring and assessing our suppliers

Supplier assessments and third-party audits include an evaluation of compliance with the [Microsoft Supplier Code of Conduct](#), SEA specifications, Environmental Health and Safety requirements, and other important standards, including international best practices. We provide results of SEA Audits for a period of three years as well as Microsoft's own supplier assessments in the Appendix.

The SEA team and third-party auditors use standard protocols and audit tools developed based on the Electronic Industry Citizenship Coalition (EICC) Code of Conduct and supplemental criteria from Microsoft. The onsite review incorporates:

- Review of documentation, including policies and procedures, personnel records, time records, payroll, and relevant permits.
- A site tour to assess conditions in various areas, including production operations, dormitories, canteens, chemical and waste storage areas, recreational facilities, and common areas.
- Employee interviews in their preferred language and away from their factory management.

The Devices SEA team supplements these third-party audits with onsite focused SEA assessments at all Tier 1 sites and high-to-medium-risk Tier 2 component suppliers based on risk. These assessments use the same checklist as the qualified third-party audit firms, but the assessments may be focused on a rigorous review of one topic. Through the SEA assessments and third-party audits, we are able to obtain valuable insights on supplier SEA performance, key challenges, and opportunities for supplier improvement.

1.1.3 Ensuring quality of the third-party audits

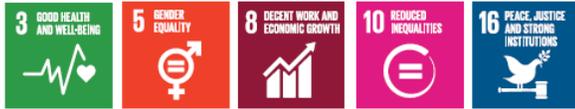
To ensure the quality of third-party audits, Microsoft implements a qualification program for third party audit firms and their individual auditors and provides supplemental training. Qualification is achieved through a detailed review to ensure the auditors' required capacity and capability to deliver high-quality, third-party audits in line with ISO 19011, applicable legal requirements, and international audit best practices.

1.1.4 Corrective action and validation

Devices works with our suppliers to ensure that corrective action plans remedy all audit and assessment findings, address the identified risks and root causes, and are implemented in a timely manner. Follow-up audits are conducted to ensure that corrective actions are implemented and closed. Where needed, we provide suppliers with best practices to help them build necessary capabilities and apply sustainable solutions to identified issues. Our schedule for closing issues is described in the chart below:

Severity of findings determines urgency

Critical nonconformance	<p>Immediate implementation of containment activities required and corrective action plans provided within 24 hours. Escalation to Devices compliance senior management within 48 hours.</p> <p>A nonconformity with significant and/or immediate impact. Includes:</p> <ul style="list-style-type: none"> • Any type of forced, prison, indentured, or bonded labor. • Workers below the minimum age working at the facility. • No reliable records of workers' standard and overtime hours. • No full access to facilities and to all relevant records at all times. • Bribery to a Microsoft employee or its representative. • Record falsification or misrepresentation (such as permit, license, waiver, official documents). • Any high-risk health and safety issue that may lead to serious injuries or death of a worker.
Serious nonconformance	<p>Close within 30 days. A nonconformity with a significant impact. Corrective action provided within seven days. Includes:</p> <ul style="list-style-type: none"> • The facility/labor agent withholds workers' government-issued identification. • Workers are not allowed to enter and exit the facility and housing freely during their non-work hours. • Overtime work is not voluntary. • The facility does not review, validate, and keep on file legal proof of age documentation upon hire for all potential workers. • Workers do not have valid national ID cards upon hiring. • Student workers work overtime. • Student workers are not paid directly for each pay period and provided with pay stubs or similar documentation. • Legal compensation for regular hours is not paid. • Overtime wage calculated and paid below the premium as legally required. • Disciplinary procedures are not humane. • Sexual harassment or abuse, corporal punishment, mental or physical coercion, verbal abuse or intimidation occurring at the facility. • Discrimination based on grounds of race, color, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership, or marital status. Facility does not respect the legal rights of workers for free association.
Major nonconformance	<p>Close within 60 days. A nonconformance that is a result of a significant failure in the supplier's management system, often caused by the supplier's failure to implement an established process or procedure or, if the process or procedure is ineffective, to meet Microsoft requirements.</p>
Minor nonconformance	<p>Close within 90 days. A minor nonconformance by itself doesn't indicate a systemic problem with the supplier's management system. It reflects the gaps of the supplier's management system or processes or ineffective execution of that management system.</p>



G4-56	G4-58	G4-HR2	G4-HR4	G4-HR5
G4-HR6	G4-HR11	G4-EN19	G4-EN20	G4-EN22

1.1.5 Continuous improvement and performance trends

Driving supplier continuous improvement is core to our SEA program. **Since the development of our Audit Management System (AMS) in FY15, we have seen year-over-year improvement in our management, transparency, and analytical ability regarding our audit data and results.**

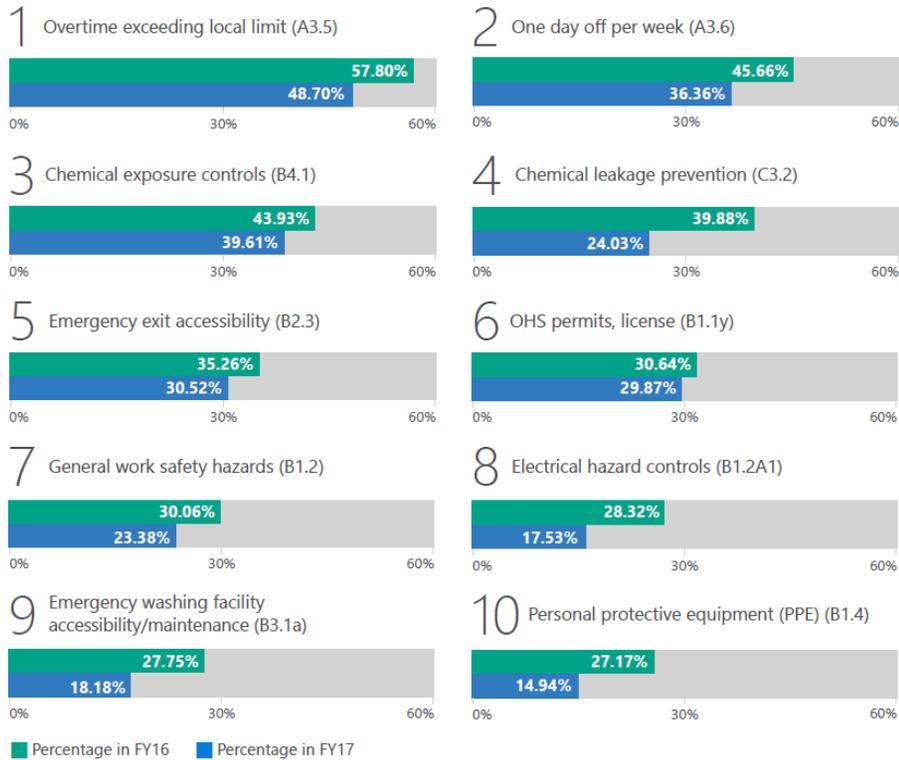
The AMS has been enriched with Microsoft Power BI to build greater visual insight. Both AMS and the Power BI dashboard have increased productivity with an attractive and user-friendly “self-service” system. With increased transparency and data integrity, information is readily available, consumable, and actionable.

Our data to indicates that the strong partnership with Manufacturing and Strategic Sourcing managers is driving suppliers to sustain year-over-year improvements through the integration of the SEA programs and establishment of strong management systems. As our supply base continues to grow, a focus area has been to motivate all newly onboarded factories to reach the minimum defined compliance level within one year, and audit data suggests that new factories significantly improved their compliance performance within this period.

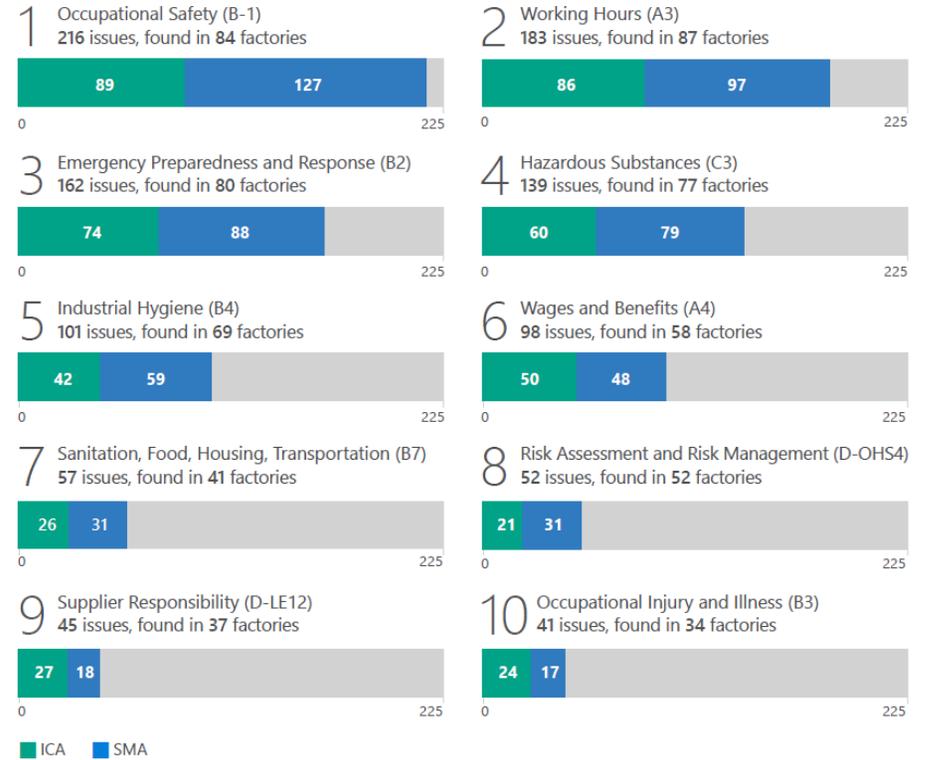
The top 10 SEA issues commonly found across all factory audits, which remain ongoing areas of focus are:

- Overtime exceeding local limit
- One day off per week
- Chemical exposure controls
- Chemical leakage prevention
- Emergency exit accessibility
- OHS permits, license
- General work safety hazards
- Electrical hazard controls
- Emergency washing facility accessibility and maintenance
- Personal protective equipment (PPE)

Top 10 SEA issues in FY16 and their trends in FY17



Top 10 NC provision breakdown for new and existing factories in FY17



1.2 Labor and Human Rights

Microsoft's respect for human rights reflects our longstanding commitment to empower individuals. The purpose of our supplier Labor and Human Rights program is to build internal and external capabilities in our supply chain with focus on human rights and labor domains, and to ensure workers are treated with equity and dignity.

1.2.1 Worker grievance hotline

Giving workers a voice to privately and safely express issues and concerns is of the utmost importance to Microsoft. We launched an anonymous and factory-independent worker grievance hotline pilot project in 2014 that we continue to scale. Our provider has implemented the hotline at six Tier 1 and one Tier 2 supplier. In FY17, we conducted a refresher orientation to workers in these selected sites and to provide education on labor rights.

In FY17, the hotline received and resolved 119 inquiries. The top three inquiries received were related to wages and benefits, factory procedure and policy, and living conditions. In FY16, we worked with a small, local training organization that has both intensive manufacturing supply chain experience and psychological training and counseling experience to provide a series of courses to the 11 hotline operators servicing our Tier 1 suppliers. This enabled the suppliers to increase their skills related to basic counseling. Complex cases are referred to an experienced organization that can provide comprehensive and professional psychological telephone counseling services to the workers. We continue to improve overall operations and scale of this program.

1.2.2 Protection of young workers

Microsoft does not allow the use of underage labor in our supply chain. Tier 1 suppliers use facial recognition technology and require the presentation of a national identification card to achieve compliance with this requirement.

One instance of child labor was detected in one of our suppliers during a regular annual audit in FY17. The child was removed from the workplace and returned to his guardian



with full compensation to support his education until he reaches legal working age. Our SEA team followed with another on-site investigation, working closely with our Factory Management team and the supplier to remediate the issue. Our SEA team also worked closely with the supplier management team to address root causes by improving their management system -- especially their recruitment process -- to prevent a recurrence.

We are committed to ensure the protection of student workers. If there is a need for student and intern workers, suppliers must follow all applicable laws and regulations. After finding increasing issues regarding student workers in FY15, we increased efforts to educate suppliers and help them improve their management practices. In FY17, we provided training for 74 suppliers to help address this issue.

1.2.3 Dispatch workers

On March 1, 2014, the new requirement about dispatched workers (those hired by an outsourced company or “dispatch agency”) in China went into effect, requiring that only temporary, supportive, and substitute positions can be filled by dispatched workers. In addition, the total number of dispatched workers cannot exceed 10 percent of the total force. Since FY15 and into FY17, we have continued to work closely with our suppliers to ensure we are in compliance with this requirement. Together with the Devices factory managers, we have made improvements in the dispatched worker compliance in our Tier 1 suppliers. Since February of 2016, all the Tier 1 factories have complied with the requirement.

1.2.4 Mitigating forced and compulsory labor and human trafficking of workers

The use of forced labor in the form of indentured, bonded, or prison labor by a Microsoft vendor or its subcontractors is prohibited by the [Microsoft Supplier Code of Conduct](#). Human trafficking, also known as modern-day slavery, is another form of forced labor that has gained increased attention during recent years. In 2015, the United States government issued a rule that amends the Federal Acquisition Regulation (FAR) to include new prohibitions designed to combat human trafficking and establish new reporting and certification requirements for federal contractors. The FAR amendment introduced seven new prohibitions which are largely consistent with our existing

program and have been incorporated into our global SEA requirements.

1.2.5 Modern Slavery Act

Since October 2015, the UK Modern Slavery Act required all commercial organizations with an annual turnover greater than £36 million, and with a presence in the UK, to publish an annual statement detailing the steps they are taking to ensure that slavery and human trafficking are not occurring within the business itself or in its supply chain. In 2015, the Microsoft SEA program was revised to include requirements regarding freely chosen employment as part of Microsoft's FAR Compliance Plan to prevent human trafficking and modern slavery.



In FY17, to increase Microsoft's level of engagement with Human Trafficking and Modern Slavery Prevention, Microsoft provided related training to the sourcing team, suppliers, audit partners and other interested groups -- delivering in-person training sessions in the US and China, as well as online training sessions.

In FY17 (December 2016), we released our first disclosure online for [FY16 on Slavery and Human Trafficking Statement, pursuant to the UK Modern Slavery Act of 2015](#). This statement articulates how we work to meet our responsibilities to respect human rights and mitigate the risks of human rights violations in our supply chain and across Microsoft.

1.3 Environmental Health and Safety



The purposes of the Environmental Health and Safety (EHS) programs are to:

- Establish a means of communication with stakeholders on EHS related matters
- Ensure compliance with all applicable laws
- Advise and make recommendations to the Microsoft Supply Chain on supplier's EHS performance
- Conduct risk identification and risk assessment to supplier's EHS and provide expertise on how to avoid employee injuries
- Reduce the environmental footprint of production

The programs cover employees in Microsoft Devices and supplier-owned factories.

In FY17, the Devices Safety, Compliance and Sustainability (SCS) team developed and delivered EHS orientation training for Microsoft employees who travel to supplier sites to improve hazard recognition skills. An electronic safety reporting tool was made available for employees to report safety concerns.

1.3.1 EHS programs at Supplier factories

In FY17, Microsoft continued to implement EHS programs in Tier 1 assembling suppliers and Tier 2 suppliers. The main EHS programs are described below.

1.3.1.1 Tier 1 factories - Safety Culture Implementation Project

The SEA team works closely with our Tier 1 suppliers to achieve "beyond compliance" performance. We aim to build a culture that respects all life and keeping each other safe and healthy. The Safety Culture project requires suppliers to conduct a self-assessment and take the necessary actions to achieve a minimum score of 85. Suppliers are given two quarters to work on the areas they have self-identified, followed by a formal assessment conducted by the SEA program manager at the supplier site. To receive Safety Culture certification, the supplier must achieve a score of 90 or above.

The Safety Culture project has eight areas of focus:

1	Safety commitments	Suppliers set up safety commitments, including safety value, safety vision, safety mission, and safety targets.	10
2	Safety compliance	Suppliers must comply with local laws and regulations and achieve no violations in their daily operations.	30
3	Safety risk control and accident	Suppliers must set up effective engineering and administrative measures to control high-risk operations and prevent any injuries.	16
4	Safety standardization	Suppliers must set up effective and practical safety procedures to manage all operations.	15
5	Safety participation	Suppliers encourage all employees to engage in safety management.	14
6	Safety training	Suppliers provide adequate safety training to all employees and improve their safety awareness.	7
7	Continuous safety	Suppliers improve safety management by using new technologies.	5
8	Recordkeeping	Suppliers retain all necessary safety documents accordingly.	3

By the end of FY17, Microsoft SEA had completed a safety culture assessment at all Tier 1 assembling suppliers for a period of three years. Supplier’s Tier1 factory management have responded positively to the Safety Culture Project:

- Implementation of the Safety Culture Project helped improve the employees’ safety behavior and raised their awareness of work safety issues significantly
- The promotion of a production safety culture has reduced workplace accidents and improved the factory’s capacity in coping with health and safety risks
- Employees are invited to participate in the safety culture development, and management learns about employees’ health and safety problems through on-site behavior observation and field visits helping employees to solve problems

1.3.1.2 Tier 1 factories - Fire Prevention program

Fire prevention is a function of everyone working at manufacturing sites. The goal of the Microsoft Fire Prevention program is to proactively educate the Tier 1 assembling suppliers to prevent potentially harmful fires and protect their workers. To achieve success in the program, suppliers are required to complete each step: inspection, corrective action closure, fire prevention management system, processes, team establishment, training, drills and annual reviews. In FY17, all Tier 1 suppliers achieved the goals for this program.

1.3.1.3 Tier 1 and 2 factories – Environmental Health and Safety training

We continue to focus on building our suppliers' capability to drive EHS improvement. In FY17, we introduced a new approach focused on "learning by doing." This training method is used to simulate scenarios to develop new skills and includes techniques such as role playing, equipment simulations, games, on-the-job training, behaviour modelling, case analysis and computer based training. Since the launch in September 2016, 40 participants have completed this course. We also delivered in-house EHS training based on the identified risks from our annual SEA audit.

For example, we identified suppliers with weak capabilities related to confined space management requirements. In response, we provided training on how to control these risks to 53 supplier SEA professionals in China in FY17. We will monitor effectiveness of this training in FY18.

1.3.1.4 Tier 1 – Water Saving program

The Water Saving program aims to help Tier 1 suppliers to develop policies and strategies, including programs to reduce, reuse, and recycle water.

By the end of FY17, all suppliers had established programs showing either neutral or reduced water usage with the exception of the remaining supplier, which is replacing its underground water pipes this calendar year.



EN-8

Additional information regarding environmental sustainability programs during manufacturing can be found in the [FY17 Sustainable Devices and Packaging report](#).

1.4 SEA Academy

We designed the SEA Academy as a capability-building program, which helps ensure our supply chain has the necessary capabilities to reduce SEA risks and continually improve to meet our SEA vision of a more sustainable and responsible supply chain.

As an effective complement to the monitoring program, SEA Academy provides various training programs helping suppliers advance from compliance to self-management, and finally to SEA culture.

Based on the supplier training needs evaluation, a series of EHS and labor management system trainings were delivered in FY17. Training topics include but are not limited to:

- EHS culture implementation
- Water and energy efficiency
- Chemical safety
- Confined space requirements
- Working hours management
- Wage management
- Labor Management System

With 122 participants from 50 suppliers in the Labor training and 115 participants from 63 suppliers in the EHS training, registration exceeded initial expectations. Looking ahead, we plan to implement a learning platform to increase the scale and scope of these trainings.

1.4.1 Risk Identification and Management project in five select Tier 2 suppliers

From February 2016 until the end of FY17, we partnered with a local China based training organization to work with five key suppliers on risk identification and management. We selected five high-risk manufacturing suppliers and trained 75 frontline and middle-level management (to date, more than 200 have participated in total), to indirectly benefit over 7,600 workers.

The classroom training and workshops focused on the following aspects: mastery of the

methods and tools of how to identify compliance risks; and mastery of the thinking, approaches and tools of conducting internal audit.

Our results are as follows:

- The five factories showed improvement in their ability to identify and manage compliance risks, including their ability to design internal audit tools. The factories have taken more initiative in managing EHS issues, moving from reactive to proactive management of risk, and conducting in-depth analysis of the root cause of the issues to solve problems systematically.
- The project helped the five factories enhance the communication and cooperation between management and frontline workers and increase the awareness of the alignment of EHS and business goals.
- Each factory increased their investment in equipment and engineering changes to improve the work environment. The improvements in work environment showed a positive impact in various areas such as workers' satisfaction and reducing injuries at work.
- The project has driven the improvement of the organizational structure in EHS management and increased support from the factories' management.
- The project helped increase the awareness and worker participation in the factories. For example, factories carried out worker satisfaction surveys, invited workers to participate in the internal audit, collected workers' feedback via different channels, and encouraged workers to join in the discussion for improvements.
- The project provided clarity at each management level by clarifying requirements and responsibilities in EHS management, as well as strengthening collaboration between the EHS department and responsible persons at all levels.
- More timely information sharing along with more frequent cross-departmental communication helped the factories to solve problems faster.



1.4.2 Other factory trainings

Previous training programs were carried into FY17. Our suppliers continued to provide access to women's health training to a total of 34,715 workers and also covered 373 workers in a Microsoft YouthSpark computer training. Also in FY17, our Tier 1 suppliers received access to 10 video training courses covering labor rights and life skills training. A total of 20,094 employees benefitted from this video training.

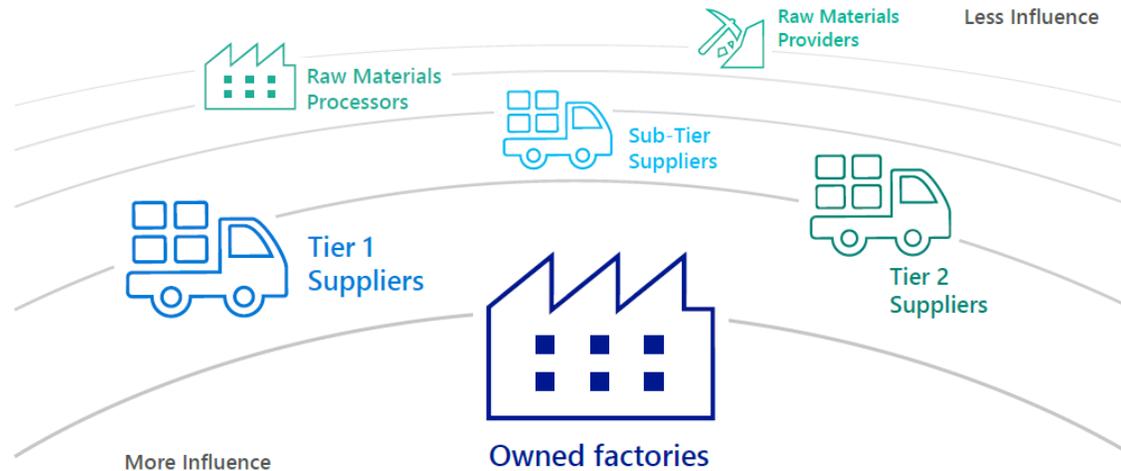
2 Responsible Sourcing of Raw Materials



Beyond our SEA program, the Microsoft [Responsible Sourcing of Raw Materials](#) policy extends our [Supplier Code of Conduct](#) to the furthest reaches of our upstream supply chain in support of human rights, labor, health and safety, environmental protection, and business ethics. This bold commitment is global in scope and applies to all substances used in our devices and packaging, unbounded by materials or geographic origin.

Raw material supply chains have multiple levels of processing, documented and undocumented distribution channels, and the diverse usages across different industries. The Microsoft span of influence is strongest with our owned facilities and diminishes as we move further upstream.

The Microsoft span of influence



As our direct influence attenuates toward raw material providers, our strategies and tools must flex to meet additional and different challenges. This requires that we impact and influence global social and environmental improvements through strategic

collaborations. In this way, we aim to positively impact our supply chain all the way to its furthest reaches.

2.1 Being strategic in responsible sourcing of raw materials

Given the complexities of the global mineral supply chain, Microsoft has developed a holistic and multifaceted approach to promoting safe, ethical working conditions. Our supply chain due diligence efforts align with the Organization for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Five strategies underpin our efforts to accomplish our policy:

Risk analysis

Risk analysis is required to identify risk and prioritize efforts. The framework we use is aligned to the [UN Framework for identifying salient human rights issues](#). Three dimensions of analysis are performed to assess and prioritize our risks.

Risk to Microsoft supply chain

Identify the material usage in our products by volume, number of parts, and criticality of material. We now have a valuable database of raw materials used in our products.

- Most common materials and minerals present in Microsoft products
- Proximity of raw materials supplier to Microsoft in the supply chain
- Risk level associated with production

Risk of issues

Analyse the social, political, and environmental supply chain risk information associated with each critical material for each of the major producing country. Risks associated with impacts (include but is not limited to):

- Human rights violation
-

-
- Child labor
 - Environmental degradation
 - Conflict
 - Corruption

Microsoft's ability to influence

Work with our internal sourcing teams and industry groups to identify our ability to influence change.

- Creation of organizational behavior changes among suppliers
 - Sustainable or substantial impacts
 - Existence of viable external resources and partnerships
-

In FY17, we identified sources of magnesium, tin, cobalt, gold, tungsten, tantalum, and wood as our primary areas of focus. The key raw materials were identified and prioritized based on the dimensions described above. We will map additional raw materials in FY18 and continue to verify the sourcing information submitted by our suppliers.

This deeper understanding of our supply chain and related risks enables us to ensure Microsoft's investments are directed to be effective and positively impact our sourcing.

Standardized Requirements and Verification

Microsoft integrates our RSRM requirements with our SEA program to establish verifiable standards. All directly contracted suppliers are required to meet these standards. An independent audit is conducted to validate each supplier's conformance. Microsoft works to ensure that our suppliers understand and support our RSRM policy by incorporating the standardized requirements in their own sourcing policy, procedures and upstream contracts. This enables Microsoft's RSRM requirements to be cascaded through our supply chain.

Capability Building

We work closely with our upstream supply chain and NGO partners to build capabilities to achieve our shared goals. In FY17, we trained our suppliers on how to conduct raw material due diligence to ensure they meet Microsoft's RSRM policy.

Transparency

We welcome principle-based, open, and honest conversations with our stakeholders. Increasing the transparency of our supply chain due diligence can identify opportunities for program improvements and further collaboration. We believe digital technology is vital to enabling transparent and responsible raw material supply chains. We leverage a management system platform on the Microsoft Azure Cloud that enables us to manage our supply chain's scale and complexity associated with requests for greater transparency. We strive to share accurate, timely, and relevant information on our supply chain's responsible sourcing activities both in response to specific requests and through Microsoft's [Responsible Sourcing Website](#).

Partnerships

Microsoft believes that improving practices associated with raw material sourcing requires participation in collaborative initiatives. We partner closely with organizations that address human rights and environmental concerns in the upstream mining and smelter industries. We believe the integrated approach is the most effective way to improve conditions for the people working in raw material supply chains.

G4-15

Examples of our collaboration and capability-building efforts include these key partners:

- [Pact](#): We work with Pact to eliminate child labor in the mining sector in the Katanga region of the Democratic Republic of the Congo. Pact's mission is to empower small and midsize mines to achieve legal, safe, and secure livelihoods. See more in our [blog post](#).
- [Initiative for Responsible Mining Assurance \(IRMA\)](#): Microsoft is on the Steering Committee of IRMA, representing the downstream purchasers along with Tiffany & Co. IRMA's mission is to establish an independently verifiable, responsible

mining assurance system that improves social and environmental performance. This assurance system has now reached the field test stage.

- [Alliance for Responsible Mining \(ARM\)](#): Microsoft supports ARM in developing the Fairmined Standard for mining gold and associated precious metals. The standard requires Artisanal and Small-scale Mining Organizations (ASMOs) to mine responsibly and address issues such as formalization and legalization of mining operations, environmental protection, labor conditions, traceability of Fairmined minerals, and socio-economic development.
- [Electronics Industry Citizenship Coalition \(EICC\)](#) and [Conflict-Free Sourcing Initiative \(CFSI\)](#): Microsoft is a member of CFSI, and participates in smelter outreach and industry-sponsored supply chain workshops to encourage greater smelter and refinery participation through CFSI's Conflict-Free Smelter Program (CFSP). We advocated for the creation of the EICC Responsible Raw Material initiative (RRMI) and are actively participating in their work groups. The RRMI seeks to promote the common goal of understanding and contributing to mitigating the salient social and environmental impacts of extraction and processing of raw materials in supply chains, leveraging direct and indirect partnerships and using international standards as our guideposts.

2.2 Supporting a conflict-free supply chain

Microsoft has published a Conflict Minerals Report annually since 2014. Our latest Conflict Minerals Report, published in May 2017, demonstrates meaningful efforts and progress toward establishing a "conflict-free" supply chain. We achieved the following during this reporting year:

- Increased number of CFSP-compliant smelters or refiners (SORs) identified in Microsoft's supply chain from 213 to 249 due to enhanced supplier outreach, and maturation of CFSI's CFSP.
- Increased supplier response rate to 99 percent in the 2016 reporting year – an increase from 71 percent in 2013.

- Refined and improved internal procedures and processes to enhance alignment with OECD Guidance, including Microsoft's supplier escalation process and supplier audit procedures.
- Increased Microsoft's level of engagement with suppliers and internal stakeholders by holding supplier forums, webinars, and in-person trainings, and by providing resources.
- Continued refinement of supplier data by conducting outreach when reported data was incomplete or uncertain.

Learn more about [Microsoft's Conflict Mineral Program](#) and the details of our progress.

3 Appendix:

3.1 SEA audit and assessment findings

In FY17, we completed 402 third-party audits and Microsoft assessments of 210 factories. These audits and assessments continue to provide us with insight into the needs and challenges of our supply chain and guide our investments in supplier capability and future improvements.

In this report, we disclose all SEA findings of critical or serious nonconformance severity. These critical or serious findings were escalated to Microsoft senior management, and the suppliers were placed on restricted status with no new Microsoft business awarded until the issues were resolved. In all instances, the suppliers instituted corrective action plans that were approved by Microsoft, and follow-up audits confirmed that the suppliers were implementing the corrective action plans.

In the following SEA Audit and Assessment Results table, we provide year-over-year data on findings of critical/serious nonconformance with the requirements covered in these audits and assessments.

Changes in the number of audits and assessments conducted each year and the scope of those audits cause fluctuations in year-over-year comparisons. In addition, we are always learning during the course of our work, which result in improvements to our program and can increase findings.

We typically see improvements in performance after working with suppliers on an ongoing basis on previously addressed issues and thus we to provide findings by new and existing suppliers. New suppliers are those new to the Microsoft Device Supply Chain and audited for the first time while existing suppliers are those that received audits and assessments in the past. While informative, we emphasize that the percentages are affected by our raising the bar on supplier performance year over year and on enhancement of audit quality and auditor requirements.

SEA Audit and Assessment Results

Category/Provision	Percentage of Suppliers with Serious/Critical Nonconformances*					
Labor	FY15		FY16		FY17	
	New Suppliers	Existing Suppliers	New Suppliers	Existing Suppliers	New Suppliers	Existing Suppliers
Freely Chosen Employment	1%	1%	0%	0%	0%	0%
Child Labor Avoidance**	7%	3%	6%	5%	5%	3%
Working Hours ***	0%	1%	18%	9%	39%	20%
Wages and Benefits****	3%	2%	9%	2%	11%	5%
Humane Treatment	0%	0%	0%	0%	1%	0%
Non-Discrimination*****	1%	0%	3%	0%	1%	0%
Freedom of Association	0%	0%	0%	0%	0%	0%
Health and Safety						
Occupational Safety	2%	1%	0%	1%	0%	0%
Emergency Preparedness and Response	0%	0%	0%	0%	0%	0%
Occupational Injury and Illness	0%	0%	0%	0%	0%	0%
Industrial Hygiene	1%	0%	0%	0%	0%	0%
Physically Demanding Work	0%	0%	0%	0%	0%	0%
Machine Safeguarding	0%	0%	0%	0%	0%	0%
Sanitation, Food, Housing Transportation	0%	0%	0%	0%	0%	0%
Environment						
Environmental Permits and Reporting	0%	1%	2%	0%	0%	0%
Pollution Prevention and Resource Reduction	0%	0%	0%	0%	0%	0%
Hazardous Substances	0%	0%	0%	0%	0%	0%
Wastewater and Solid Waste	0%	0%	0%	0%	0%	0%
Air Emissions	0%	0%	0%	0%	0%	0%
Product Content Restrictions	0%	0%	0%	0%	0%	0%

Ethics						
Business Integrity	0%	0%	0%	0%	0%	0%
No Improper Advantage	0%	0%	0%	0%	0%	0%
Disclosure of Information*****	0%	1%	0%	0%	0%	1%
Protection of Intellectual Property	0%	0%	0%	0%	0%	0%
Fair Business, Advertising, and Competition	0%	0%	0%	0%	0%	0%
Protection of Identity	0%	0%	0%	0%	0%	0%
Responsible Sourcing of Minerals	0%	0%	0%	0%	0%	0%
Privacy	0%	0%	0%	0%	0%	0%
Non-retaliation	0%	0%	0%	0%	0%	0%
Management Systems						
Labor and Ethics Mgmt. Systems	0%	0%	0%	0%	0%	0%
Environmental Health & Safety Mgmt. Systems	0%	0%	0%	0%	0%	0%

FY17 Results:

* Percentage represents number of the suppliers with critical/serious findings on each issue out of the base of suppliers audited and assessed by third-party audits and Microsoft SEA assessments. Audits and assessments are based on the EICC audit protocols with additional Microsoft requirements

** Out of the 7 cases, 1 is related to child labor at the factory. The other 5 cases are related to student workers and 1 is related to workers not having valid ID. For student workers, the issues are student workers working overtime.

*** All findings include workers' workweek exceed 72 hours or workers consecutively work for more than 24 days without rest, except one which is related to working hours compliance system could not be verified due to not providing accurate and complete overtime working records .

**** 12 cases involve factories not paying the workers sufficient overtime wage or workers' basic wage does not meet minimum law requirement. 1 case related to delay payment and another 1 case related to wages compliance status could not be verified due to not providing accurate and complete overtime working records .

***** 1 case is of allegation of sexual harassment / intimidation.

*****1 case is for requiring pregnancy test for female workers during the onboarding health examination and the other

*****1 case is for not proper disclosure of information (not providing accurate and complete overtime working records)

3.2 GRI Index

GRI G4 Index		Disclosed in FY17 Devices Sustainability report <i>(chapter mentioned)</i>	Additional information
Organizational profile			
G4-11	Percentage of total employees covered by collective bargaining agreements		Microsoft recognizes the right of employees to join unions and enter collective bargaining agreements. However, practicalities vary according to country laws and practices. We require and verify that suppliers respect the workers' rights to freedom of association and collective bargaining. Employees must be free to join associations of their choice and select their representatives according to local and international policies. This is 100 percent required for all suppliers.
G4-12	Describe the organization's supply chain		The elements of the supply chain for Devices are described throughout this report.
Commitments to external initiatives			
G4-15	List of externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Responsible Sourcing of Raw Materials	
Report profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided		This report covers the information for fiscal year 2017 (July 2016–June 2017).
G4-29	Date of most recent previous report		October 2016
G4-30	Reporting cycle		Annual
G4-31	Contact point for questions regarding the report or its contents		Stakeholderinquiries@microsoft.com
G4-32	GRI Content Index		This report contains standard disclosures from the GRI Sustainability Reporting Guidelines.

Governance			
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental, and social impacts.	SEA Program	
Ethics and integrity			
G4-56	Description of the organization's values, principles, standards, and norms of behavior such as codes of conduct and codes of ethics	SEA Program, SEA Strategy	Microsoft standards of business conduct are the foundation of our commitment to ethical business practices and legal compliance. Additionally, we require all our suppliers to uphold the ethical business, employment, environmental, and worker safety practices prescribed in our Supplier Code of Conduct .
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms, or hotlines	SEA Program, SEA Strategy	Microsoft offers employees and external parties multiple ways to report compliance concerns, such as a toll-free telephone hotline and sending email to the office of legal compliance (buscond@microsoft.com).
Category: Economic			
G4-EC7	Development and impact of infrastructure investments and services supported		Microsoft is committed to applying technology, talent, and financial resources to serve the needs of communities around the world where our employees, partners, and customers live and work.
Aspect: Procurement practices			
G4-EC9	Proportion of spending on local suppliers at significant locations of operation; define "local" and "significant"		Proportion of spending on local suppliers at significant locations of operation is as follows: FY17: 50% (factories in China) and 6% (factories in United States) FY16: 66% (factories in China) FY15: 77% FY14: 76% FY13: 71% FY12: 72% (Note—Geographic definition of "local": Within the same country as the Microsoft hiring subsidiary.)

Category: Environmental

Aspect: Materials

G4-EN1	Materials use by weight or volume; report the total weight or volume of materials used to produce and package the organization's primary products and services by a) nonrenewable materials used and b) renewable materials used		Microsoft requires all packaging, parts, and components manufacturers to notify all substances used in manufacturing. The total materials used are not reported in GRI terms because part of the materials are Microsoft suppliers' trade-secret information.
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Aspect: Water

G4-EN8	Total water withdrawal by source	Water Saving Program	Link to Microsoft CDP reports
G4-EN9	Water sources significantly affected by withdrawal of water		We are not aware of any Microsoft manufacturing or nonmanufacturing sites that would affect any water sources to a significant degree.
G4-EN10	Percentage and total volume of water recycled and reused		Link to Microsoft CDP reports

Aspect: Emissions

G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)		Link to Microsoft CDP reports
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)		Link to Microsoft CDP reports . No other relevant indirect greenhouse gas emissions in owned factories.
G4-EN19	Reduction of greenhouse gas (GHG) emissions		Microsoft has a management program in place with Tier 1 and Tier 2 contracted suppliers to establish annual reporting protocols to identify collaborative emissions reduction projects with suppliers as part of product development and service delivery. We have asked our 95 percent spend suppliers to report to CDP.
G4-EN20	Emissions of ozone-depleting substances (ODS)	SEA Strategy	We did not use ozone-depleting substances in our products or production.

Aspect: Effluents and waste

G4-EN22	Total water discharge by quality and destination	SEA Strategy	Link to Microsoft CDP reports
G4-EN23	Total weight of waste by type and disposal method	Environmental Health and Safety	Link to Microsoft CDP reports
G4-EN24	Total number and volume of significant spills		Microsoft had no significant spills in FY2017.

Aspect: Supplier Environmental Assessment

G4-EN32	Percentage of new suppliers that were screened using environmental criteria	One hundred percent of new suppliers were screened through SEA audits covering environmental aspects.
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Zero nonconformities found in SEA audit.

Category: Social
Labor practices and decent work

Aspect: Equal remuneration for women and men

G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	We are committed to equal pay for equal skill and level of responsibility irrespective of factors such as employee gender, nationality, and religion. Zero nonconformities found in SEA audit.
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Aspect: Supplier assessment for labor practices

G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	One hundred percent of new suppliers were screened through SEA audits covering labor aspects.
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	There were 90 critical and serious labor and ethics nonconformities found in SEA audit, with 100 percent of them escalated to management and stakeholders. Corrective action plans from suppliers were required and reviewed.

Human rights

Aspect: Investment

G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening	One hundred percent of Microsoft supplier contracts executed in FY17 contain Supplier Code of Conduct and Social and Environmental Accountability (SEA) specifications or substantial equivalence. In owned factories there were zero grievances.
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G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	SEA Strategy; Labor and Human Rights	Aggregate internal employee training related to ensuring SEA conformance specifically covering human rights policies or procedures totaled 61 hours in FY17, covering 633 employees trained. In owned factories, all the employees were trained on human rights aspects, totaling approximately 1 hour of training for approximately 300 individuals.
Aspect: Nondiscrimination			
G4-HR3	Total number of incidents of discrimination and corrective actions taken		One nonconformity found in SEA audit. The case had been escalated to management and stakeholders. Corrective action plans were required from supplier and reviewed by Microsoft.
Aspect: Freedom of association and collective bargaining			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	SEA Strategy; Labor and Human Rights	Zero nonconformities found in SEA audit. All owned factories in Microsoft allow for the right to exercise freedom of association and collective bargaining.
Aspect: Child labor			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	SEA Strategy; Labor and Human Rights	One critical nonconformity found in SEA audit. In owned factories, there were zero incidents.
Aspect: Forced and compulsory labor			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	SEA Strategy; Labor and Human Rights	Zero nonconformities found in SEA audit. In owned factories, there were zero incidents.

Aspect: Indigenous rights		
G4-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken	Zero nonconformities found in SEA audit.
Aspect: Supplier human rights assessment		
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	One hundred percent of new suppliers were screened through SEA audits covering human rights aspects.
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	SEA Strategy; Labor and Human Rights Zero nonconformities found in SEA audit.
Aspect: Human rights grievance mechanisms		
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	For suppliers, four grievances were received through the third-party, Microsoft-sponsored worker grievance hotline. All grievances were verified with suppliers and workers by the third-party provider. Grievances include wages and benefits, factory procedure and policy, and living conditions. All have been addressed and resolved. In owned factories, there were zero grievances reported.
Society		
Aspect: Anticorruption		
G4-SO4	Communication and training on anticorruption policies and procedures	Anticorruption was covered in SEA supplier trainings in FY16. Training on anticorruption policies was completed in owned factories.
Aspect: Anticompetitive behavior		
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	One hundred percent of new suppliers were screened through SEA audits.
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Zero nonconformities found in SEA audit.

Product responsibility

Aspect: Customer health and safety

G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	All Microsoft devices and packaging are subject to our product safety management system.
G4-PR2	Total number of incidents of noncompliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	We are not aware of any incidents of this nature in FY17.

Aspect: Product and service labeling

G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	Please see information regarding our device compliance commitments via the link provided: Microsoft sustainable devices, compliance, and regulation
G4-PR4	Total number of incidents of noncompliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	We are not aware of incidents of noncompliance in FY17 for labeling.