

Microsoft Corporation

Corporate Governance Guidelines

Introduction

The Board of Directors has developed corporate governance policies and practices to help it fulfill its responsibilities to shareholders. The policies in these guidelines assure that the Board will have the authority and practices in place to review and evaluate the Company's business operations, and to make decisions that are independent of the Company's management.

The Board recognizes that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders including employees, customers, suppliers, government, and the public.

The Board may refine or change these guidelines as necessary or advisable to achieve these objectives.

Role of the Board

Shareholders elect the Board to oversee management and to assure that shareholder long-term interests are served. Through oversight, review, and counsel, the Board establishes and promotes Microsoft's business and organizational objectives. The Board oversees business affairs and integrity, works with management to determine the Company's mission and long-term strategy, performs the annual Chief Executive Officer evaluation, oversees CEO succession planning, and oversees internal control over financial reporting and external audit.

The Board oversees risk management at the Company. The Board exercises direct oversight of strategic risks to the Company and other risk areas not delegated to one of its committees. The Audit Committee reviews and assesses the Company's processes to manage financial reporting risk and to manage investment, tax, and other financial risks. It also reviews the Company's policies for risk assessment and steps management has taken to control significant risks, except those delegated by the Board to other committees. The Compensation Committee oversees compensation programs and policies and their effect on risk taking by management. The Regulatory and Public Policy Committee oversees risks related to competition and antitrust, data privacy, cybersecurity, workforce and immigration laws and regulations. In each case, management periodically reports to the Board or relevant committee, which provides guidance on risk appetite, assessment, and mitigation. Each committee charged with risk oversight reports up to the Board on those matters.

Board Composition and Selection; Independent Directors

- 1. Board Size.** The Board believes 9 to 14 members is an appropriate size based on the Company's present circumstances. The Board periodically evaluates whether a larger or smaller number of directors would be preferable.
- 2. Selection of Board Members.** The Company's shareholders elect Board members annually. The Governance and Nominating Committee recommends to the Board director candidates for nomination and election at the annual shareholders meeting or for appointment to fill vacancies. The Governance and Nominating Committee annually reviews with the Board the applicable skills and characteristics

required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Nominating Committee considers the qualifications of individual director candidates in light of the Board Membership Criteria described below. The Governance and Nominating Committee may use a variety of sources, including executive search firms and shareholder recommendations, to identify director candidates. The Committee retains any search firms and approves payment of their fees.

The Governance and Nominating Committee will consider candidates recommended by shareholders. Shareholders may submit director candidate suggestions in writing to the attention of the Corporate Secretary of the Company, providing the candidate's name and qualifications for service as a Board member, a document signed by the candidate indicating the candidate's willingness to serve, if elected, and evidence of the shareholder's ownership of Company stock. A shareholder wishing to nominate a candidate must follow the procedures described in Article 1 of the Company's [Bylaws](#).

The Board nominates director candidates for election by the shareholders and fills any Board vacancies that occur between shareholder elections.

3. Board Membership Criteria. The Governance and Nominating Committee works with the Board annually to determine the appropriate characteristics, skills, and experience for the Board as a whole and its individual members with the objective of having a Board with diverse backgrounds and experience in business, government, education, and public service. Characteristics expected of all directors include independence, integrity, high personal and professional ethics, sound business judgment, and the ability and willingness to commit sufficient time to the Board.

In evaluating the suitability of individual Board members, the Board considers many factors, including general understanding of marketing, finance and other disciplines relevant to the success of a large publicly traded company in today's business environment; understanding of the Company's business and technology; educational and professional background; personal accomplishment; and geographic, gender, age, and ethnic diversity. The Board is committed to actively seeking highly qualified women and individuals from minority groups to include in the pool from which Board nominees are selected.

The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the Company's business and represent shareholder interests through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a director for re-election, the Governance and Nominating Committee considers the director's past attendance at meetings, participation in and contributions to the activities of the Board, and the results of the annual Board evaluation.

4. Board Composition – Mix of Management and Independent Directors. The Board intends that, except during periods of temporary vacancies, a substantial majority of its directors will be independent. The Governance and Nominating Committee has established [director independence guidelines](#) to assist it in determining the independence of a director, which will either meet or be more restrictive than the definition of "independent director" in the listing standards of the Nasdaq Stock Market, and applicable laws and regulations. The Board will also consider all other relevant facts and circumstances bearing on independence.

- 5. Tenure.** The Board does not believe it should limit the overall length of service an individual may serve as a director. Directors who have served on the Board for an extended period can provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies, and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines.
- 6. Election of Directors.** As provided in Article 2 of the Company's Bylaws, in an uncontested election directors will be elected by the vote of the majority of the votes cast. In a contested election, the directors will be elected by the vote of a plurality of the votes cast.
- 7. Retirement Policy.** The Board believes that 75 is an appropriate retirement age for directors. Directors generally will not be nominated for re-election at any annual shareholder meeting following their 75th birthday.
- 8. Directors with Significant Job Changes.** The Board believes that any director who retires from his or her present employment, or who materially changes his or her position, should offer to resign from the Board. The Governance and Nominating Committee would evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new occupational status.
- 9. Board Leadership.** The independent directors will annually appoint a Chairman of the Board. The Board does not have a policy as to whether the Chairman should be an independent director, an affiliated director, or a member of management. To ensure robust independent leadership on the Board, if the individual appointed as Chairman of the Board is not an independent director, or when the independent directors determine that it is in the best interests of the Company, the independent directors will also annually appoint a Lead Independent Director. The Chairman (or the Lead Independent Director if the Chairman is not an independent director) coordinates the activities of the independent directors and is authorized to call meetings of the independent directors, coordinates with the CEO and Corporate Secretary to set Board meeting agendas, chairs executive sessions of the independent directors, will be available for consultation with shareholders (when appropriate), and performs the other duties either specified in these guidelines or assigned from time to time by the Board.
- 10. Other Boards and Committees.** Without approval from the Board, no director may serve on over four public company boards (including the Company's Board) and no member of the Audit Committee may serve on over three public company audit committees (including the Company's Audit Committee). In addition, directors who serve as CEOs or in equivalent positions generally should not serve on over two public company boards (including the Company's Board) besides their employer's board.

In calculating service on a public company board or audit committee, service on a board or audit committee of a parent and its substantially owned subsidiary counts as service on a single board or audit committee. Any Audit Committee member's service on over three public company audit committees will be subject to the Board's determination that the member is able to effectively serve on the Company's Audit Committee and the disclosure of that determination in the Company's annual proxy statement. The Governance and Nominating Committee and the Board will consider the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors

and making its recommendations to Company shareholders. Service on boards and/or committees of other organizations should follow the Company's conflict of interest policies.

Board Meetings; Involvement of Senior Management and Independent Advisors

11. Board Meetings – Frequency. The Board will generally hold four regularly scheduled in-person meetings per year and holds additional special meetings as necessary. In addition, the Board generally holds informal meetings quarterly to review and discuss the Company's business performance. Directors are expected to attend meetings, except if unusual circumstances make attendance impractical.

12. Board Meetings – Agenda. The Chairman (or the Lead Independent Director if the Chairman is not an independent director), coordinates with the CEO and Corporate Secretary to set the agenda for each Board meeting, taking into account suggestions from other members of the Board.

13. Advance Distribution of Materials. Information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed before the meeting to all members whenever feasible and appropriate. Each director is expected to review this information in advance to facilitate the efficient use of meeting time. The Board recognizes that certain items to be discussed at Board meetings are of an extremely sensitive nature and that distributing materials on these matters prior to Board meetings may not be appropriate.

14. Access to Employees. The Board has access to Company employees to ensure that directors can ask all questions and glean all information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries. Management is encouraged to invite Company personnel to any Board meeting at which their presence and expertise would help the Board have a full understanding of matters considered.

15. Access to Independent Advisors. The Board and its committees may retain independent outside auditors and financial, legal, or other advisors. The Company will provide appropriate funding, as determined by the Board or any committee, to compensate those independent outside auditors or advisors, and to cover the ordinary administrative expenses incurred by the Board and its committees in carrying out their duties.

16. Compensation Consultant Independence. The Compensation Committee has sole authority to retain and terminate compensation consultants, outside counsel and other advisors to the Compensation Committee, as it deems appropriate, including sole authority to approve fees and other retention terms. Before retaining any compensation consultant, outside counsel or other advisor, the Compensation Committee will evaluate their independence consistent with applicable regulations and listing standards. It is the policy of the Compensation Committee that any compensation consultant retained by the Compensation Committee must be independent of Company management. A consultant satisfying the Company's [Compensation Consultant Independence Standards](#) will be independent for purposes of this policy. The Compensation Committee will also evaluate the independence of its legal and other advisors under applicable regulations and listing standards.

17. Executive Sessions of Independent Directors. At each quarterly Board meeting, time is set aside for the independent directors to meet in executive session without Company management present. Additional executive sessions may be held as needed. Executive sessions will be called and

chaired by the Chairman (or the Lead Independent Director if the Chairman is not an independent director). These executive session discussions may include such topics as the independent directors determine.

Communications with Shareholders

18. Engagement with Shareholders. The Company maintains an active dialogue with shareholders to ensure a diversity of perspectives are thoughtfully considered. From time to time, under the direction of the Chairman (or the Lead Independent Director if the Chairman is not an independent director) one or more directors may speak or meet with shareholders when appropriate.

19. Shareholder Communications to the Board. Microsoft shareholders are invited to contact the Board about corporate governance or the Board of Directors. Inquiries meeting these criteria will be received and processed by management before being forwarded to the Board, a committee of the Board, or a director as designated in the message. Communications relating to other topics, including those that are primarily commercial in nature will not be forwarded.

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Email: AskBoard@microsoft.com

Anyone with concerns about questionable accounting or auditing matters or possible violations of the Microsoft Standards of Business Conduct should be reported pursuant to the procedures outlined in the Standards of Business Conduct, which are available on the Company's website at www.microsoft.com/investor/corporategovernance.

20. Attendance at Annual Shareholder Meeting. Directors are expected to attend the Company's [annual shareholders meeting](#), except if unusual circumstances make attendance impractical.

Performance Evaluation; Succession Planning

21. Annual CEO Evaluation. The Chairman of the Board leads the full Board in the annual CEO performance evaluation. The Governance and Nominating Committee establishes the evaluation process for reviewing the CEO's performance. The evaluation results are reviewed and discussed with the independent directors, and the results are communicated to the CEO.

22. Development and Succession Planning. A primary responsibility of the Board is planning for CEO succession and overseeing identification and development of executive talent. The Board, with the assistance of the Compensation Committee and working with the CEO and human resources department, oversees executive officer development and corporate succession plans for the CEO and other executive officers to provide for continuity in senior management.

The Board works with the CEO to plan for CEO succession. The succession plan covers identification of internal candidates, development plans for internal candidates, and identification of external candidates. The Board annually reviews the CEO succession plan. The criteria used to assess potential CEO candidates are formulated based on the Company's business strategies, and include strategic vision, leadership, and operational execution.

The Board maintains an emergency succession contingency plan should an unforeseen event such as death or disability occur that prevents the CEO from continuing to serve. The plan identifies the individuals who would act in an emergency and their responsibilities. The contingency plan is reviewed by the Board annually and revised as appropriate.

The Board may review development and succession planning more frequently as it deems necessary or desirable.

23. Board and Committee Self-Evaluation. The Governance and Nominating Committee conducts an annual evaluation of the performance of the Board and each of its members. It reports the results to the Board. The report includes an assessment of the Board's compliance with the principles in these guidelines, and identification of areas in which the Board could improve its performance.

In addition, each committee conducts an annual performance evaluation and reports the results to the Board. Each committee's report includes an assessment of the committee's compliance with the principles in these guidelines and the committee's charter, as well as identification of areas in which the committee could improve its performance.

Compensation

24. Board Compensation Review. The Board believes that the level of director compensation should be based on time spent carrying out Board and committee responsibilities and be competitive with comparable companies. In addition, the Board believes that a significant portion of director compensation should align director interests with the long-term interests of shareholders. Company management should periodically report to the Board how the Company's director compensation practices compare with those of other large public corporations. The Board should change its director compensation practices only upon the recommendation of the Compensation Committee.

25. Director Stock Ownership. The Board believes that, to align the interests of directors and shareholders, directors should have a significant financial stake in the Company. Each director should maintain shares equal in value to a minimum of three times the base annual retainer payable to a director. Each director must retain 50 percent of all net shares (post tax) that vest until the minimum share ownership requirement is achieved. Stock deferred under a non-qualified deferred compensation arrangement will count towards the minimum ownership requirement. The Board will evaluate whether exceptions should be made for any director on whom this requirement would impose a financial hardship.

Committees

26. Number and Type of Committees. The Board has four standing committees – an Audit Committee, a Compensation Committee, a Governance and Nominating Committee, and a Regulatory and Public Policy Committee. The Board may add new committees or remove existing committees as it

deems advisable in fulfilling its responsibilities. Each committee will perform its duties as assigned by the Board in compliance with Company Bylaws and the committee's charter.

27. Composition of Committees; Committee Chairs. The Audit, Compensation, Governance and Nominating, and Regulatory and Public Policy committees consist solely of independent directors. The Board appoints committee members and committee chairs according to criteria it determines to be in the best interest of the Company and its shareholders. The full Board considers periodic rotation of committee members and chairs, considering the desirability of rotation of committee members and chairs, the benefits of continuity and experience, and applicable legal, regulatory and stock exchange listing requirements.

28. Committee Meetings and Agenda. The chair of each committee develops, together with relevant Company managers, the committee's general agenda and objectives and for setting the agenda for committee meetings. The chair and committee members will determine the frequency and length of committee meetings consistent with the committee's charter.

Miscellaneous

29. Director Orientation and Continuing Education. The Governance and Nominating Committee and management are responsible for director orientation programs, and for director continuing education programs to assist directors in maintaining skills necessary or appropriate to perform their responsibilities.

- Orientation programs are designed to familiarize new directors with the Company's businesses, strategies, and policies and to assist new directors in developing the skills and knowledge required for their service.
- Continuing education programs for Board members may include a combination of internally developed materials and presentations, programs presented by third parties at the Company, and financial and administrative support for attendance at qualifying university or other independent programs.

30. Review of Corporate Governance Guidelines. The Board expects to review these guidelines at least every two years.

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