

## Strong Execution Drives Microsoft First Quarter Results

*Windows 10 running on 110 million devices; Commercial cloud annualized revenue run rate exceeds \$8.2 billion*

**REDMOND, Wash. — October 22, 2015** — Microsoft Corp. today announced the following results for the quarter ended September 30, 2015:

- Revenue was \$20.4 billion GAAP, and \$21.7 billion non-GAAP
- Operating income was \$5.8 billion GAAP, and \$7.1 billion non-GAAP
- Net income was \$4.6 billion GAAP, and \$5.4 billion non-GAAP
- Earnings per share was \$0.57 GAAP, and \$0.67 non-GAAP

Non-GAAP financial results exclude the deferral and recognition of revenue primarily related to Windows 10.

During the quarter, Microsoft announced a 16% increase in its quarterly dividend to \$0.36 and returned \$6.9 billion to shareholders in the form of share repurchases and dividends.

"We are making strong progress across each of our three ambitions by delivering innovation people love," said Satya Nadella, chief executive officer at Microsoft. "Customer excitement for new devices, Windows 10, Office 365 and Azure is increasing as we bring together the best Microsoft experiences to empower people to achieve more."

The following table reconciles these financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. Microsoft has provided this non-GAAP financial information to aid investors in better understanding the company's performance. All growth comparisons relate to the corresponding period in the last fiscal year.

	Three Months Ended September 30,			
(\$ in millions, except per share amounts)	Revenue	Operating Income	Net Income	Earnings per Share
<b>2014 As Reported (GAAP)</b>	<b>\$23,201</b>	<b>\$5,844</b>	<b>\$4,540</b>	<b>\$0.54</b>
Integration and Restructuring Charges	-	1,140	909	0.11
<b>2014 As Adjusted (non-GAAP)</b>	<b>\$23,201</b>	<b>\$6,984</b>	<b>\$5,449</b>	<b>\$0.65</b>
<b>2015 As Reported (GAAP)</b>	<b>\$20,379</b>	<b>\$5,793</b>	<b>\$4,620</b>	<b>\$0.57</b>
Net Impact from Windows 10 Revenue Deferrals	1,281	1,281	760	0.10
<b>2015 As Adjusted (non-GAAP)</b>	<b>\$21,660</b>	<b>\$7,074</b>	<b>\$5,380</b>	<b>\$0.67</b>
Percentage Change Y/Y (GAAP)	(12)%	(1)%	2%	6%
Percentage Change Y/Y (non-GAAP)	(7)%	1%	(1)%	3%
Percentage Change Y/Y (non-GAAP) Constant Currency	(2)%	11%	11%	15%

"We're pleased with our operating results this quarter. With financial discipline and strong execution, we grew operating income by 11 percent in non-GAAP constant currency," said Amy Hood, executive vice president and chief financial officer of Microsoft.

Revenue in Productivity and Business Processes declined 3% (up 4% in constant currency) to \$6.3 billion, with the following business highlights:

- Office commercial products and cloud services revenue grew 5% in constant currency with Office 365 revenue growth of nearly 70% in constant currency and continued user growth across our productivity offerings

- Office 365 consumer subscribers increased to 18.2 million, with approximately 3 million subscribers added in the quarter
- Dynamics revenue grew 12% in constant currency, with the Dynamics CRM Online enterprise installed base growing more than 3x year-over-year

Revenue in Intelligent Cloud grew 8% (up 14% in constant currency) to \$5.9 billion, with the following business highlights:

- Server products and cloud services revenue grew 13% in constant currency, with revenue from premium products and services growing double-digits
- Azure revenue and compute usage more than doubled year-over-year
- Enterprise Mobility customers more than doubled year-over-year to over 20,000, and the installed base grew nearly 6x year-over-year

Revenue in More Personal Computing declined 17% (down 13% in constant currency) to \$9.4 billion, with the following business highlights:

- Windows OEM revenue declined 6%, performing better than the overall PC market, as the Windows 10 launch spurred PC ecosystem innovation and helped drive hardware mix toward premium devices
- Phone revenue declined 54% in constant currency reflecting our updated strategy
- Search advertising revenue excluding traffic acquisition costs grew 29% in constant currency with Bing US market share benefiting from Windows 10 usage
- Xbox Live monthly active users grew 28% to 39 million

"We're seeing great traction with businesses who want to bring Microsoft's cloud, mobile device management technology and data analytics together to improve security and productivity resulting in almost 70 percent year-over-year growth in our commercial cloud run rate," said Kevin Turner, chief operating officer at Microsoft.

### **Business Outlook**

Microsoft will provide forward-looking guidance in connection with this quarterly earnings announcement on its earnings conference call and webcast.

### **Webcast Details**

Satya Nadella, chief executive officer, Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, John Seethoff, deputy general counsel, and Chris Suh, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. PDT (5:30 p.m. EDT) today to discuss details of the company's performance for the quarter and certain forward-looking information. The session may be accessed at <http://www.microsoft.com/investor>. The webcast will be available for replay through the close of business on October 22, 2016.

### **Adjusted Financial Results and non-GAAP Measures**

During the first quarter of fiscal year 2016, GAAP revenue, operating income, net income, and earnings per share include the net impact from Windows 10 revenue deferrals. For the first quarter of fiscal year 2015, the financial results included the charges related to the integration and restructuring expenses related to both Microsoft's restructuring plan announced in July 2014 and the ongoing integration of

Nokia Devices and Services (“NDS”). These items are defined below. In addition to these financial results reported in accordance with GAAP, Microsoft has provided certain non-GAAP financial information to aid investors in better understanding the company’s performance. Presenting these measures without the impact of these items gives additional insight into operational performance and helps clarify trends affecting the company’s business. For comparability of reporting, management considers this information in conjunction with GAAP amounts in evaluating business performance. These non-GAAP financial measures should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

## Non-GAAP Definitions

Microsoft recorded \$1.28 billion net deferrals of revenue related to Windows 10 during the three months ended September 30, 2015.

Integration and restructuring expenses were \$1.14 billion during the three months ended September 30, 2014, due mainly to restructuring charges of \$1.05 billion, including employee severance expenses and the write-down of certain assets in connection with the restructuring plan.

## Constant Currency

Microsoft presents constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the average exchange rates from the comparative period rather than the actual exchange rates in effect during the respective periods. The non-GAAP financial measures presented below should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

## Financial Performance Constant Currency Reconciliation

	Three Months Ended September 30,							
(\$ in millions, except per share amounts)	2014 As Reported (GAAP)	2014 As Adjusted (non-GAAP)	2015 As Reported (GAAP)	2015 As Adjusted (non-GAAP)	Constant Currency Impact	%Y/Y (GAAP)	% Y/Y (non-GAAP)	% Y/Y Constant Currency (non-GAAP)
<b>Revenue</b>	\$23,201	\$23,201	\$20,379	\$21,660	\$(1,158)	(12)%	(7)%	(2)%
<b>Operating Income</b>	\$5,844	\$6,984	\$5,793	\$7,074	\$(691)	(1)%	1%	11%
<b>Net Income</b>	\$4,540	\$5,449	\$4,620	\$5,380	\$(648)	2%	(1)%	11%
<b>Earnings per Share</b>	\$0.54	\$0.65	\$0.57	\$0.67	\$(0.08)	6%	3%	15%

## Segment Revenue Constant Currency Reconciliation

Three Months Ended September 30,

(\$ in millions)	2014 As Reported (GAAP)	2015 As Reported (GAAP)	Constant Currency Impact	%Y/Y (GAAP)	% Y/Y Constant Currency (GAAP)
Productivity and Business Processes	\$6,490	\$6,306	\$(437)	(3)%	4%
Intelligent Cloud	\$5,475	\$5,892	\$(351)	8%	14%
More Personal Computing	\$11,236	\$9,381	\$(371)	(17)%	(13)%

### About Microsoft

Microsoft (Nasdaq "MSFT" @microsoft) is the leading platform and productivity company for the mobile-first, cloud-first world and its mission is to empower every person and every organization on the planet to achieve more.

### Forward-Looking Statements

Statements in this release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

- intense competition in all of Microsoft's markets;
- increasing focus on services presents execution and competitive risks;
- significant investments in new products and services that may not be profitable;
- acquisitions, joint ventures, and strategic alliances may have an adverse effect on our business;
- impairment of goodwill or amortizable intangible assets causing a significant charge to earnings;
- Microsoft's continued ability to protect and earn revenues from its intellectual property rights;
- claims that Microsoft has infringed the intellectual property rights of others;
- the possibility of unauthorized disclosure of significant portions of Microsoft's source code;
- cyber-attacks and security vulnerabilities in Microsoft products and services that could reduce revenue or lead to liability;
- disclosure of personal data that could cause liability and harm to Microsoft's reputation;
- outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
- government litigation and regulation that may limit how Microsoft designs and markets its products;
- potential liability under trade protection and anti-corruption laws resulting from our international operations;
- Microsoft's ability to attract and retain talented employees;
- adverse results in legal disputes;
- unanticipated tax liabilities;

- Microsoft's hardware and software products may experience quality or supply problems;
- exposure to increased economic and operational uncertainties from operating a global business;
- catastrophic events or geo-political conditions may disrupt our business; and
- adverse economic or market conditions may harm our business.

For more information about risks and uncertainties associated with Microsoft's business, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" sections of Microsoft's SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft's Investor Relations department at (800) 285-7772 or at Microsoft's Investor Relations website at <http://www.microsoft.com/investor>.

All information in this release is as of October 22, 2015. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company's expectations.

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Note to editors: For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at <http://www.microsoft.com/news/>. Web links, telephone numbers, and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today's 2:30 p.m. PDT conference call with investors and analysts, is available at <http://www.microsoft.com/investor>.

**MICROSOFT CORPORATION****INCOME STATEMENTS**

(In millions, except per share amounts)(Unaudited)

	<b>Three Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Revenue	\$ <b>20,379</b>	\$ 23,201
Cost of revenue	<b>7,207</b>	8,273
Gross margin	<b>13,172</b>	14,928
Research and development	<b>2,962</b>	3,065
Sales and marketing	<b>3,333</b>	3,728
General and administrative	<b>1,084</b>	1,151
Impairment, integration, and restructuring	<b>0</b>	1,140
Operating income	<b>5,793</b>	5,844
Other income (expense), net	<b>(280)</b>	52
Income before income taxes	<b>5,513</b>	5,896
Provision for income taxes	<b>893</b>	1,356
Net income	\$ <b>4,620</b>	\$ 4,540
Earnings per share:		
Basic	\$ <b>0.58</b>	\$ 0.55
Diluted	\$ <b>0.57</b>	\$ 0.54
Weighted average shares outstanding:		
Basic	<b>7,996</b>	8,249
Diluted	<b>8,066</b>	8,351
Cash dividends declared per common share	\$ <b>0.36</b>	\$ 0.31

**MICROSOFT CORPORATION****COMPREHENSIVE INCOME STATEMENTS**

(In millions)(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
Net income	<u>\$ 4,620</u>	<u>\$ 4,540</u>
Other comprehensive income (loss):		
Net unrealized gains on derivatives (net of tax effects of <b>\$23</b> and \$4)	<b>57</b>	319
Net unrealized losses on investments (net of tax effects of <b>\$(308)</b> and \$(102))	<b>(571)</b>	(189)
Translation adjustments and other (net of tax effects of <b>\$(12)</b> and \$(47))	<b>(270)</b>	(81)
Other comprehensive income (loss)	<u><b>(784)</b></u>	<u>49</u>
Comprehensive income	<u>\$ 3,836</u>	<u>\$ 4,589</u>

**MICROSOFT CORPORATION**

BALANCE SHEETS  
(In millions)(Unaudited)

	September 30, 2015	June 30, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,431	\$ 5,595
Short-term investments (including securities loaned of \$129 and \$75)	93,924	90,931
Total cash, cash equivalents, and short-term investments	99,355	96,526
Accounts receivable, net of allowance for doubtful accounts of \$250 and \$335	11,444	17,908
Inventories	3,816	2,902
Deferred income taxes	1,447	1,915
Other	5,594	5,461
Total current assets	121,656	124,712
Property and equipment, net of accumulated depreciation of \$18,009 and \$17,606	15,046	14,731
Equity and other investments	11,438	12,053
Goodwill	17,142	16,939
Intangible assets, net	4,745	4,835
Other long-term assets	2,869	2,953
Total assets	\$ 172,896	\$ 176,223
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 6,630	\$ 6,591
Short-term debt	9,998	4,985
Current portion of long-term debt	750	2,499
Accrued compensation	3,450	5,096
Income taxes	607	606
Short-term unearned revenue	21,603	23,223
Securities lending payable	154	92
Other	6,207	6,766
Total current liabilities	49,399	49,858
Long-term debt	27,819	27,808
Long-term unearned revenue	2,784	2,095
Deferred income taxes	2,169	2,835
Other long-term liabilities	13,280	13,544
Total liabilities	95,451	96,140
Commitments and contingencies		

Stockholders' equity:

Common stock and paid-in capital - shares authorized 24,000; outstanding <b>7,986</b> and 8,027	<b>68,093</b>	68,465
Retained earnings	<b>7,614</b>	9,096
Accumulated other comprehensive income	<b>1,738</b>	2,522
<hr/> Total stockholders' equity	<hr/> <b>77,445</b>	<hr/> 80,083
Total liabilities and stockholders' equity	<hr/> <b>\$ 172,896</b>	<hr/> \$ 176,223

**MICROSOFT CORPORATION**

CASH FLOWS STATEMENTS  
(In millions)(Unaudited)

	<b>Three Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operations</b>		
Net income	\$ 4,620	\$ 4,540
Adjustments to reconcile net income to net cash from operations:		
Depreciation, amortization, and other	1,461	1,428
Stock-based compensation expense	674	646
Net recognized losses on investments and derivatives	101	55
Excess tax benefits from stock-based compensation	(282)	(502)
Deferred income taxes	73	301
Deferral of unearned revenue	10,423	8,022
Recognition of unearned revenue	(11,355)	(10,643)
Changes in operating assets and liabilities:		
Accounts receivable	6,376	6,627
Inventories	(937)	(483)
Other current assets	(280)	(280)
Other long-term assets	(5)	279
Accounts payable	(135)	(659)
Other current liabilities	(2,024)	(1,166)
Other long-term liabilities	(116)	189
Net cash from operations	<b>8,594</b>	<b>8,354</b>
<b>Financing</b>		
Proceeds from issuance of short-term debt, maturities of 90 days or less, net	4,890	2,999
Proceeds from issuance of debt	121	0
Repayments of debt	(1,750)	(1,500)
Common stock issued	219	216
Common stock repurchased	(4,757)	(2,888)
Common stock cash dividends paid	(2,475)	(2,307)
Excess tax benefits from stock-based compensation	282	502
Other	(178)	0
Net cash used in financing	<b>(3,648)</b>	<b>(2,978)</b>
<b>Investing</b>		
Additions to property and equipment	(1,356)	(1,282)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(390)	(141)
Purchases of investments	(37,570)	(24,085)
Maturities of investments	5,686	1,693

Sales of investments	<b>28,502</b>	16,445
Securities lending payable	<b>62</b>	(367)
Net cash used in investing	<b>(5,066)</b>	(7,737)
Effect of exchange rates on cash and cash equivalents	<b>(44)</b>	(6)
Net change in cash and cash equivalents	<b>(164)</b>	(2,367)
Cash and cash equivalents, beginning of period	<b>5,595</b>	8,669
Cash and cash equivalents, end of period	<b>\$ 5,431</b>	\$ 6,302

**MICROSOFT CORPORATION**SEGMENT REVENUE AND OPERATING INCOME  
(In millions)(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
Productivity and Business Processes	\$ 6,306	\$ 6,490
Intelligent Cloud	5,892	5,475
More Personal Computing	9,381	11,236
Corporate and Other	(1,200)	0
Total revenue	<u>\$ 20,379</u>	<u>\$ 23,201</u>
<b>Operating Income</b>		
Productivity and Business Processes	\$ 3,105	\$ 3,338
Intelligent Cloud	2,400	2,106
More Personal Computing	1,562	1,619
Corporate and Other	(1,274)	(1,219)
Total operating income	<u>\$ 5,793</u>	<u>\$ 5,844</u>