Building a Supply Chain

with

Integrity, Accountability & Respect

About this report

This is our first report uniquely dedicated to Responsible Sourcing. It underpins our drive to improve the sustainability and transparency of the Microsoft Devices supply chain, describing the strategy, approach, and performance of our Responsible Sourcing program for the period July 1, 2020 – June 30, 2021 (FY21).

Links throughout the document to further information

Download or link to web page

Find out more elsewhere in this document

For the best experience, we recommend using the free software Adobe Reader, or iBooks if viewing on an Apple mobile device. Interactive functionality may be limited when viewed in a web browser.

Microsoft Devices (Devices) is a business group of Microsoft Corporation. We are responsible for the ideation, design, development, manufacturing, packaging, and distribution of Microsoft's hardware, packaging, and related software products.

Since 2005, we have built an industry-leading Responsible Sourcing program. Formerly called Social and Environmental Accountability (SEA), the Responsible Sourcing program works to ensure that our hardware and packaging suppliers meet the standards set out in the Microsoft Supplier Code of Conduct and our Social and Environmental Accountability specification.

This report provides an overview of our approach to operating a responsible supply chain and our performance across key issues. While previous Devices Sustainability reports have detailed how we manage sustainability across the Devices product lifecycle, this report focuses more narrowly on our approach to operating a responsible supply chain.

Navigating our reporting ecosystem

We place a premium on transparency and easy-to-find content. This report is part of a broader reporting ecosystem which covers environmental, social, and governance (ESG) topics relevant to our Responsible Sourcing supply chain and Microsoft more broadly.

Our reports hub provides a single, consolidated view of key reports and resources. This year's social and environmental publications include:

C RS

Microsoft Corporate Social Responsibility Report

Describes progress against our commitments to support inclusive economic opportunity, protect fundamental rights, commit to a sustainable future, and earn trust.

Download Microsoft Corporate Social Responsibility Report

C RS

Microsoft Environmental Sustainability Report

Communicates progress against our four environmental commitments on carbon, waste, water, and ecosystems.

Download Annual Environmental Sustainability Report

C RS

Microsoft Annual Human Rights Report

Describes how we are delivering our commitments to respect and promote human rights.

Download Annual Human Rights Report

C RS

Modern Slavery and Human Trafficking Statement

Outlines what we are doing to prevent modern slavery and human trafficking in our operations and supply chains.

Download Modern Slavery and Human Trafficking Statement

RS

Conflict Minerals Report

Describes our actions and progress towards ensuring key minerals sourced for use in our devices do not finance armed conflict or benefit armed groups in the Democratic Republic of the Congo and adjoining countries.

Download Conflict Minerals Report

C Corporate RS Responsible Sourcing

Contents

Overview 4

Message from Panos Panay, EVP & Chief Product Officer	5
About Responsible Sourcing	6
Our Responsible Sourcing supply chain	7
FY21 highlights and commitments	8
Our changing world	9

Our approach 12

Responsible Sourcing values and strategy	13
Engaging our stakeholders	15
Embedding our values	18
Supporting global progress	20
Partnering for change	21

Operating with integrity 23

Overview of our approach	24
Managing risk in our supply chain	25
Increasing supply chain resilience	29
Safeguarding access to and availability of raw materials	31
Sourcing raw materials responsibly	33

Managing with accountability 40

Overview of our approach	41
Tackling climate change	42
Managing waste	47
Reducing air emissions	49
Water stewardship	50

Sourcing with respect 51

Overview of our approach	52
Ensuring supplier health and safety	53
Promoting labor and human rights	56

Appendix 62

How we report	63

Integrity

Outlook 2022:
Building resilient supply chains

Read the Outlook 2022

30

Accountability

Outlook 2022:
A shift in supply chain emissions

Read the Outlook 2022

45

Respect

Outlook 2022:
Supply chain transparency technology

Read the Outlook 2022

58

moving forward

Always learning and

Message from Panos Panay, EVP & Chief Product Officer

As product makers at Microsoft, we believe that every product we make reflects the people that make them and use them.

As we innovate and build technology that pushes the world forward, we must also continually grow and evolve our product-making processes to design, manufacture, and ship our devices and experiences in more sustainable ways. This includes taking actions to minimize potential environmental and human rights impacts that may be associated with the raw materials our products are made from, through all the suppliers that help manufacture, market, and sustain our products.

> "Our values drive how we approach our mission and how we build products. We accomplish that by going beyond compliance and ensuring that integrity, accountability, and respect are built-in at every stage."

We are committed to the important work to drive our creation of a responsible and resilient Devices supply chain on a global scale. It requires recognizing and tackling a broad set of complex and often interconnected issues, ranging from access to raw materials, human rights, climate change, and waste. We must continue to learn and educate ourselves to build awareness of ongoing issues in our industry to ensure the highest standards while building the technology of the future.

As part of that journey, this year's report is dedicated to sharing our Responsible Sourcing program's efforts to set higher goals for where and how our materials are sourced and made, who makes them, and the impact of our processes both on society and the environment. We recognize that we have much to learn, but as a technology leader we have a critical role to play in advancing technology, solutions, and initiatives that can achieve sustainable solutions and promote industry-wide changes for the future.

We will continue our efforts in partnership with our suppliers and the industry to collaborate on identifying opportunities, understanding gaps, addressing challenges, and developing solutions at scale for a responsible and resilient supply chain. We are committed to prioritizing efforts to mitigate and manage risks while building the right capabilities, tools, and systems to scale our impact.

We're inspired every day by our incredible mission as a company to empower every person and organization on the planet to achieve more. Our values drive how we approach our mission and how we build products that push the world forward. We accomplish that by going beyond compliance and ensuring that integrity, accountability, and respect are built-in at every stage.

Thank you for the One Microsoft teamwork to date across these efforts, and the collaboration to come. Looking forward to building a more sustainable and resilient future together.

Panos Panay
EVP & Chief Product Officer

> "We are committed to the important work to drive our creation of a responsible and resilient Devices supply chain on a global scale."

About Responsible Sourcing

From factories and mines to logistics, transport, and recycling providers, we rely on a network of thousands of suppliers – and our suppliers' suppliers – all around the world to source the materials needed to manufacture and transport the components that go into our products.

Developing a responsible supply chain means working together, in partnership. Every one of our devices was made by someone, somewhere. People mined the raw materials from which the integral components are made and factory workers transformed these components into finished products. More people transported the completed products from factory floor to pallet, dockyard to warehouse, and truck to store. It's a long and complex process with hundreds of people involved in the sourcing, manufacture, transport, and delivery of our products before they reach our customers' hands.

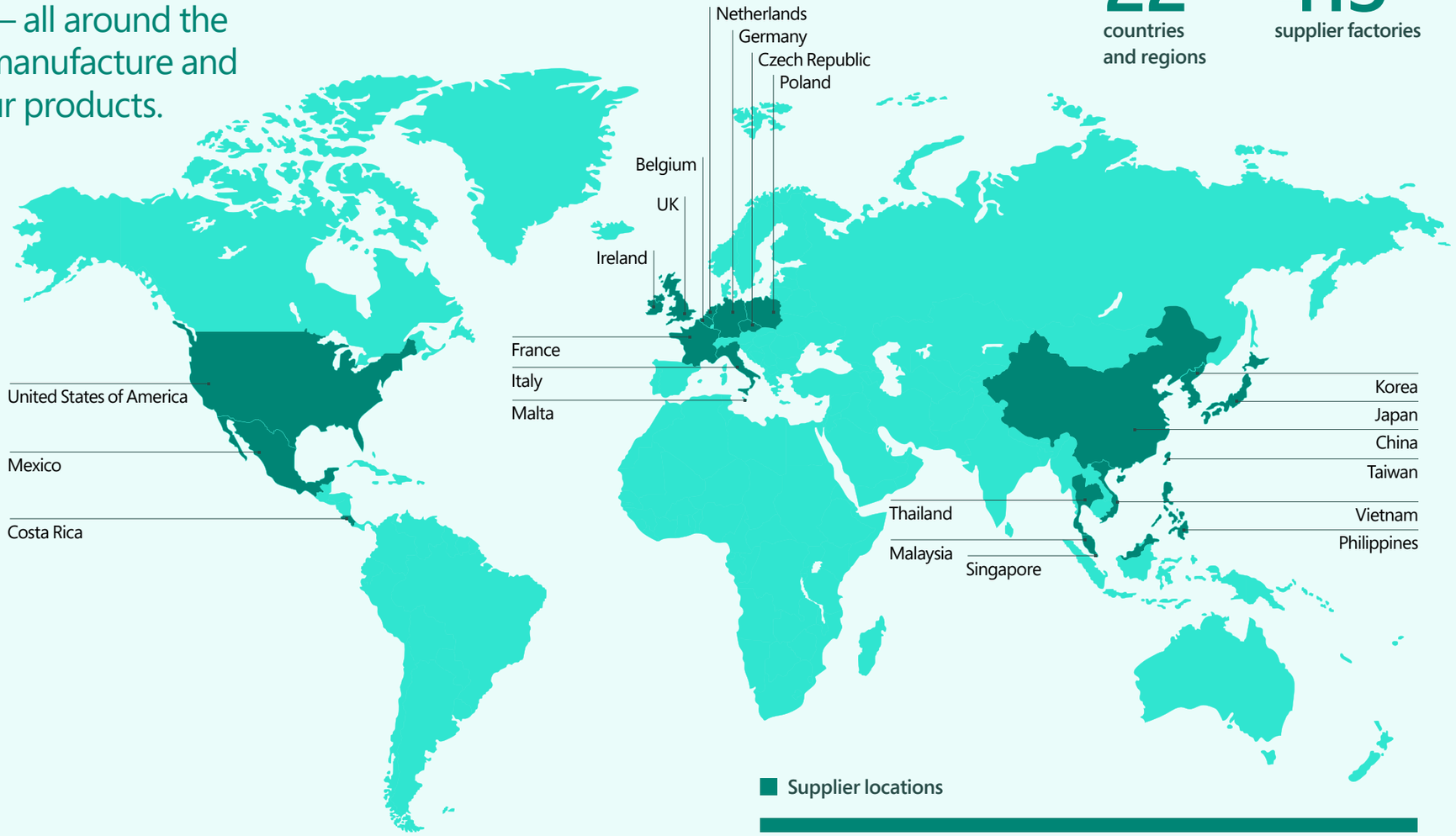
We are deeply committed to working with our suppliers to ensure all these people stay safe at work and are treated with dignity and respect. And throughout the process of building our products, protecting the environment is our priority. To achieve these objectives, we work end-to-end across the supply chain to address issues relating to human rights, environment, health and safety, ethics, and security.

Guided by our values of integrity, accountability, and respect, our commitment to sourcing responsibly extends beyond compliance. We are a capacity builder and enabler, supporting our suppliers to achieve the highest standards, embed change, and enhance people's livelihoods. We also don't limit our focus to our own supply chain; our aim is to combine deep expertise, humility, integrity, and partnership to raise the bar across the technology sector and beyond.

Our suppliers

22 countries and regions

413 supplier factories



Our Responsible Sourcing supply chain

Our supply chain starts with the raw materials used to manufacture our products and extends across the entire hardware ecosystem that manufactures our devices and components.

As a "downstream" company, Microsoft does not directly source raw materials. Instead, we contract with direct (which includes Tier 1 Assembly and Tier 2) suppliers to manufacture products and components. Those suppliers source materials, components, and products from their upstream suppliers which, in turn, source items from their upstream suppliers. As a result, there are many tiers of suppliers in the chain between Microsoft and raw material miners and processors.

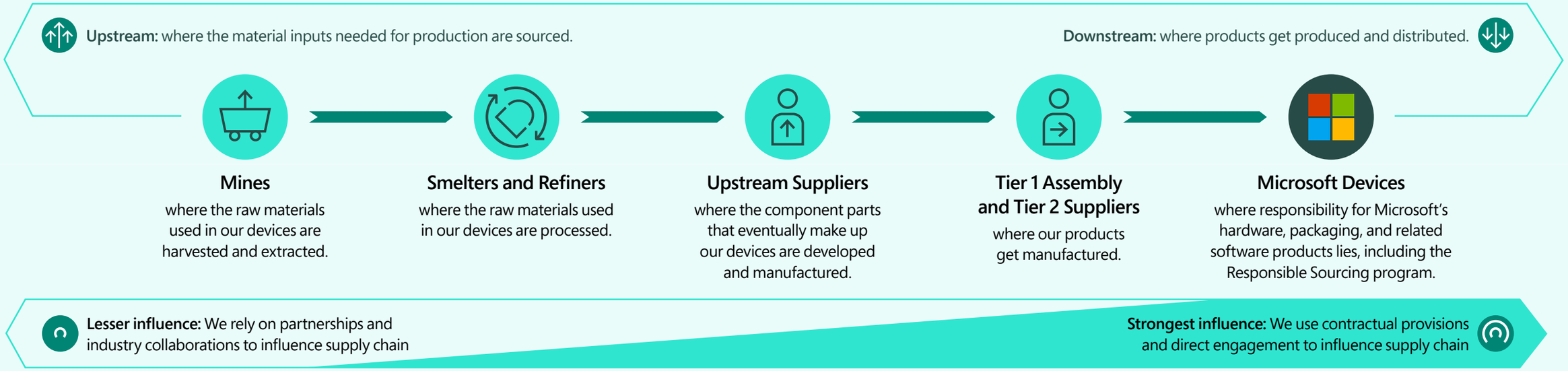
The level of risk in our supply chain and how we respond to it depends on a range of factors: exposure to social, environmental, and economic issues and risks; location of suppliers; their tier and function; regulation and compliance requirements; and our ability to influence suppliers.

Engagement and collaboration are key to addressing risks in the supply chain and we use our influence to build supplier commitment and capacity to drive change.

We have the strongest influence with our directly contracted suppliers that manufacture our products. They are the key focus of our supplier due diligence and engagement.

Our influence is less direct at the furthest reaches of the upstream supply chain, including with suppliers which extract and process the minerals we use to make our products. For these suppliers, we manage risks through partnerships and collaboration, leveraging technology to improve transparency.

Responsible Sourcing supply chain



FY21 highlights and commitments

We're making good progress but we still have much to do. Here are some examples of how we are…

Operating with integrity

Managing with accountability

Sourcing with respect

540 audits and assessments of **414** active factories were carried out

100% of active factories were risk assessed

206 suppliers had completed SEA requirement training

100 suppliers prioritized for decarbonization efforts in FY22

68 explosive precursor chemical management risks mitigated through specialized Health & Safety Program

New dashboard launched to identify factory climate risks

4,830 workers interviewed as part of the audit to understand working conditions

91% of the requested 126 suppliers submitted CDP Climate Change questionnaire

Target: **50%** reduction of Scope 3 carbon emissions by 2030

Around **$1.5m** in recruitment fees and insufficient payments were repaid to over 36,000 supplier workers

1,447 major and serious non-conformances were closed across our suppliers

212 factories covered in the Workers' Voice Hotline for grievance reporting

Mineral sourcing transparency efforts were extended to aluminum, copper, lithium, magnesium, and nickel

New pre-assessment stage launched before onboarding high-risk suppliers to introduce the risk mitigation process at the earliest stage of our relationship

Our changing world

Responsible Sourcing isn't easy or straightforward. A global supply chain comes with global challenges shaped by the complexities of diverse politics, cultural norms, regulation, infrastructure, and more.

Many of the issues related to responsible sourcing are interconnected and require a holistic view. For example, business impacts on human rights and the environment occur all along the supply chain and these impacts are closely intertwined and mutually dependent. A safe, clean, and healthy environment is intrinsic to upholding human rights and sustainable environmental management can only be achieved through respect for human rights.[1]

Current global trends present both challenges and opportunities for supply chain management. Technology has an important role to play across them all.

1 https://www.unep.org/news-and-stories/video/right-safe-clean-healthy-and-sustainable-environment

Responding to global supply disruptions

Over the last decade, increased globalization has made supply chains more complex with multi-site production, multi-source procurement and multi-tiered suppliers. This has been good for global economic growth, but it has created a dependence on raw materials and components sourced from many different locations.

Today, geopolitical tensions are shaking the foundations of these complex, globalized supply chains. COVID-19 has reignited enthusiasm for local manufacturing as a solution for growing unemployment and to meet a desire for local businesses to be supported.

Companies are looking for ways to diversify their supply chains to cut their exposure to business continuity risks, and governments are looking to boost domestic production to reduce sourcing dependencies on foreign countries.

The COVID-19 pandemic also revealed that resilience against unpredictable, dramatic events depends on strong business models, a robust digital backbone, and processes that can pivot rapidly. Achieving this will require more data-enabled digital technology, and companies from all industries are investing in technologies such as blockchain, artificial intelligence (AI), and intelligent automation to make their supply chains more efficient and agile.[2]

2 https://home.kpmg/xx/en/home/insights/2020/06/building-supply-chain-resilience-through-digital-transformation.html

Towards a just transition

The impacts of climate change and COVID-19 have devastated communities worldwide with the most vulnerable hardest hit and least equipped to recover. Governments are promising to "build back better," with the focus on protecting the natural environment and tackling the climate crisis. But to create a truly just and sustainable future, we must urgently address global inequalities.

It is estimated that 92 percent of accumulated greenhouse gas (GHG) emissions in the atmosphere are attributable to countries in the "Global North" and only 8 percent to the countries in the "Global South."[3] At the same time, climate change and extreme weather have driven 34 million people into acute food insecurity.[4]

"Climate justice" means that climate solutions must link human rights and development in a way that reflects the needs, voices, and leadership of those who are most impacted. It is a complex issue that connects economies, cultures, and the natural world.[5]

3 https://pubmed.ncbi.nlm.nih.gov/32918885/
4 https://www.wfp.org/publications/2020-global-report-food-crises
5 https://www.unep.org/explore-topics/environmental-rights-and-business-2021

Our changing world (continued)

Climate action across the value chain

Businesses are a key driver of climate change with the vast majority of GHG emissions generated by the private sector. Industry must take a lead on pursuing decarbonization as quickly as possible while considering the impacts of climate change on people.

Understanding how and where carbon emissions arise, setting bold carbon reduction targets, and tracking progress towards decarbonization is key.

This starts with getting real about the carbon math. For many companies, the most urgent and challenging issue is addressing "Scope 3" emissions, which result from a company's indirect activities, including its supply chain. Scope 3 emissions can be extensive and are often far greater than a company's combined Scope 1 and 2 emissions.

See page 43 for more information

Scope 3 emissions must be accounted for by developing robust metrics and setting science-based targets across the entire value chain. This accounting is crucial if we are going to avoid the worst impacts of climate change and achieve net zero carbon emissions by 2050 in line with the Paris Agreement.

Increasing need for supply chain transparency

Global challenges such as COVID-19 and climate change are testing the security, sustainability, and integrity of global supply chains. Stakeholders are becoming more aware of supply chain impacts and are demanding greater accountability.

In today's complex supply chains, second, third, and further tier suppliers are not directly engaged with the company that is selling products to consumers. It is often difficult to influence far removed suppliers and full supply chain transparency can be difficult to achieve in this context.

Business risks, such as those related to human rights and environmental degradation, grow significantly as supply chains extend across multiple jurisdictions – each with its own diverse business practices and cultural norms.

As production and consumption shifts to emerging markets, collaboration and transparency is key to mitigating risks and protecting workers, communities, and the environment.

Digitization helps to make supply chains more transparent. As data and analytics become more available and technical developments such as blockchain and remote sensing mature, such tools can help organizations to improve transparency and accountability, security and traceability along the supply chain, as well as enabling progress on human rights and environmental issues.

Our changing world (continued)

Growing demand for critical minerals

Critical minerals are metals and non-metals that are considered essential to the economy and society. They are used in a vast array of products, from airplanes and wind turbines to electric vehicles and electronic devices. Many critical metals are central to the high-tech sector. The "criticality" of a mineral may change with time as its supply and society's needs shift.[6]

As the world looks to technology to provide the solutions to a low-carbon future, demand for critical minerals is projected to increase. Their finite supply, coupled with rising global demand for "green" technology, could lead to future scarcity.

Cobalt is essential to power the rechargeable lithium-ion batteries used in smartphones, laptops, and electric cars, yet its extraction is linked with both social and environmental concerns.

Demand for cobalt is expected to rise significantly; cobalt is critical to the renewable energy transition as more electric cars will be manufactured to address climate change.[7]

Research suggests global demand for cobalt will increase

250%

from approximately 120,000 tons in 2020[8] to as much as 430,000 tons by 2030[9]

6 https://www.americangeosciences.org/critical-issues/metals
7 http://www.responsiblemineralsinitiative.org/minerals-due-diligence/cobalt/
8 https://www.globalenergymetals.com/cobalt/cobalt-demand/
9 https://www.newscientist.com/article/2234567-can-we-quit-cobalt-batteries-fast-enough-to-make-electric-cars-viable/

Emerging waste management models

One emerging solution to alleviate the pressure on natural resources is to reclaim and reuse the valuable materials contained in products at the end of their useful life as part of the "circular economy". This model is restorative and regenerative by design and aims to keep products, components, and materials at their highest utility and value at all times.[10] However, while the amount of discarded electronics is growing faster than any other type of waste stream, the rate of this type of recycling is still extremely low. Minerals are extracted much more quickly than they are recycled and re-used. Extraction of virgin metals tends to be more cost-effective than collection, sorting, and processing of recycled metals, providing a disincentive to the circular economy.

Advances in digital technology, including data collection and analytics, can support the circular economy by enabling people to extract and analyze waste data and optimize the flow of materials, providing insights and incentives for the development of a circular economy. For example, with useful data available about what waste is where and in what quantity and quality, companies can then procure this waste much more effectively and seek to bring the materials back into their production processes, rather than extracting virgin metals.

10 https://www.forbes.com/sites/sap/2021/05/24/data-analytics-and-storytelling-can-help-turn-waste-into-value/

Grasping the opportunity

Responsible sourcing has become more urgent than ever. Making it a strategic priority will enable organizations to collectively build supply chains that are resilient and future-proof and that support efforts to "build back better" post-COVID-19. Transparent and responsible supply chains that leverage the latest technologies have a central role to play in driving social and environmental change. As more organizations pursue "procurement with purpose," we have an opportunity to move beyond monitoring supplier compliance to actively collaborating with suppliers on initiatives to improve environmental, social, and economic performance.

empowering people

Aligned with our values,

Responsible Sourcing values and strategy

We're evolving our approach to responsible sourcing based on our values of integrity, accountability, and respect. It reflects our mission to "empower every person and every organization on the planet to achieve more."

Global supply chains provide vital income to communities and support economic progress around the world. But as they become more complex, the issues involved in creating a responsible supply chain become increasingly vast and varied. At the same time, operating a responsible supply chain is both crucial for advancing Microsoft's own mission and ambitions and, in the aggregate, a huge enabler of sustainable development.

Empowering people to achieve more, which is core to our mission, is the lens through which we view our supply chain impacts. Our values of integrity, accountability, and respect guide how we treat everyone involved in the supply of materials and services for making our devices – taking responsibility for our impacts and treating people with fairness and dignity. It is our belief that our devices reflect the people who made them and we set high standards both for ourselves and our suppliers.

In Responsible Sourcing, we work across the end-to-end supply chain to address issues relating to human rights, environment, health and safety, ethics, and security. We look beyond compliance to seize on opportunities that build the capabilities of our suppliers and, ultimately, enable change that improves people's lives and livelihoods. With the power of Microsoft behind us, we know we can't just wait for change to happen – rather, we need to lead it.

How we extend our values

We invest heavily in extending our values across our supply chain with a focus on:

Standardized requirements

Requiring our suppliers to adhere to our standards set out in the Microsoft Supplier Code of Conduct

Capability building

Investing in the skills and knowledge of our suppliers, auditors, and Microsoft employees

Assurance and accountability

Validating compliance and increasing transparency within our own supply chain and influencing improved industry-wide transparency through partnerships and collaborations

Creating shared value

Partnering with others to improve global supply chains and help achieve the United Nations' Sustainable Development Goals (SDGs)

Analysis of risks and opportunities

Working with our suppliers to identify and create a shared understanding and management of risks

Responsible Sourcing values and strategy (continued)

Our values

Integrity

We are honest, ethical, and trustworthy.

What this means for Responsible Sourcing

To operate with integrity, we must put the right processes in place and work with our suppliers to uphold high standards and address risks in the supply chain.

Discover how we put this into action

See page 23

Accountability

We accept full responsibility for our decisions, actions, and results.

What this means for Responsible Sourcing

Managing with accountability means defining clear standards and holding ourselves and our suppliers responsible for our environmental impacts.

Discover how we put this into action

See page 40

Respect

We recognize our responsibility to respect the universal rights of the workers in our supply chains and the communities in which they live.

What this means for Responsible Sourcing

Sourcing with respect means demanding high standards for safety and working together with our suppliers to ensure all workers in our supply chain are treated with equity and dignity.

Discover how we put this into action

See page 51

Engaging our stakeholders

Our rightsholders and stakeholders care about our devices and how they are sourced. Their views are a powerful force for change: they challenge us to do more and they extend our global reach and impact.

Microsoft's rightsholders and stakeholders are the people, groups, organizations, and institutions that are interested in, impacted by, or have an influence on our business.

By working together with our rightsholders and stakeholders, we can unlock the full potential of technology to achieve our mission.

We aim to empower those working to solve societal issues and to create a more sustainable and accessible world. Where appropriate, we make our technology available through open sourcing so that more people can benefit from it.

Transparency in our communications

Credible and honest communications help build trust in our products. A wide variety of people and organizations contact us for information on our supply chain. We strive to be transparent, direct, and personal when we respond.

One of the ways we aim to make our supply chain more transparent is by publishing the results of supplier audits on our publicly available Power BI dashboard.

Our dashboard highlights our commitment to empowering others through technology. More information about our progress on supply chain social and environmental issues can be found in our reports hub.

Engaging our stakeholders (continued)

How we engaged our stakeholders in FY21

Listening to customers

Why our customers are important

Our customers challenge us to deliver more. Their feedback drives us to innovate new solutions, address challenges, and be more transparent.

How we engage with them

Customers give us insights in many ways: online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers, and via our customer service representatives.

Our customers have requested more transparency on human rights issues, such as responsible sourcing of raw materials and forced labor and supplier carbon emissions.

How we responded in FY21

We continued to make investments in programs focused on minimizing raw materials and human rights risks and in our efforts towards decarbonizing our supply chain including supplier training, capacity building and other mechanisms to support our suppliers in addressing these issues.

Engaging with employees

Why our employees are important

Our employees are crucial to our responsible sourcing. They bring challenge, feedback, innovation, and creativity to help shape our approach and improve the sustainability of our supply chain.

How we engage with them

We ask for and act on employee feedback in many ways, including through the annual, anonymous Microsoft Poll of all global employees.

We also conduct training to educate and engage colleagues on responsible sourcing issues, helping them understand how they can consider responsible sourcing in their own decisions.

How we responded in FY21

To align compliance requirements across Microsoft's supply chain management, we conducted two training courses on SEA requirements, common supply chain risks, and risk mitigation, for 30 newly onboarded sourcing managers. Five SEA training courses (covering new sourcing risks, risk resilience, and new regulatory requirements and trends) were also delivered to 99 employees from our new product introduction, strategic sourcing, and factory management teams.

Communicating with regulators

Why regulators are important

Laws, regulations, and standards set the baseline for addressing environmental and social challenges.

How we engage with them

Microsoft engages actively with regulators to support developments across issues relevant to our business, both directly and through industry associations.

We provide feedback to regulators on the implementation of existing and pending laws.

How we responded in FY21

We shared two best practices, one is magnesium/aluminum scrap handling, and the second is risk assessment to volatile organic compound (VOC) treatment devices, which have been adopted as local government policies in China. "The practice to press the magnesium scrap into brick is spread through the Order No. 6 of Ministry of Emergency Management of P.R.C. – the Safety Regulations on Dust Explosion Protection. It will help the industry to reduce the metal dust fire & explosion risks." Senior Engineer, National Explosion Protection Testing Center.

See page 55

Responding to civil society/NGOs

Why civil society/NGOs are important

Our partnerships with NGOs and cross-industry stakeholders enable us to tackle strategic challenges and achieve meaningful change in our supply chain and wider society.

How we engage with them

We support international NGO partners who bring the necessary expertise and local knowledge to develop and implement vital programming that brings value to our Responsible Sourcing program.

We engage with NGOs in the form of partnerships that offer diverse points of view that challenge our ambitions and elevate our thinking and approaches.

How we responded in FY21

We have responded to concerns from local mining-affected communities that due diligence schemes can overly burden upstream producers.

We are supporting a new initiative by the international NGO IMPACT that seeks to benefit artisanal and small scale miners (ASMs) and incentivize their participation in cobalt due diligence schemes.

Engaging our stakeholders (continued)

How we engaged our stakeholders in FY21 (continued)

Partnering with suppliers

Why our suppliers are important

Our relationships with suppliers are integral to our ability to achieve our vision and sustainability priorities. We set clear standards for suppliers and work with them to promote transparency and accountability.

How we engage with them

We engage with suppliers through assessments, capacity-building workshops and training, audits, and collaborations.

Microsoft conducts anonymous Voice of the Supplier Surveys, which include questions on sustainability.

How we responded in FY21

To meet the needs of our suppliers, we carried out 17 enhancements to our SEA Academy training platform during the pandemic. Improvements focused on supplier training, survey needs, and the Workers' Voice Hotline.

We also held five supplier webinars on regulatory and Microsoft policy or procedure developments.

Connecting with investors

Why investors are important

Investors provide us with important feedback as we consider ways to enhance our corporate governance principles and policies to serve the interests of key stakeholders.

How we engage with them

We value the perspective of our investors and engage in ongoing dialogue with them through our Corporate Environmental and Social Governance team on topics such as responsible sourcing of raw materials and broader supply chain responsible sourcing.

We actively engage with our investors, including impact investors, to inform our strategies and public communications and reports.

How we responded in FY21

Investor feedback has provided critical data points, which we have used to enhance our Responsible Sourcing program and respond to new supply chain risks.

Collaborating with industry coalitions, trade groups and multi-stakeholder initiatives

Why they are important

We actively participate in initiatives across our industry and the private sector more broadly to address important sustainability issues.

In many cases, we are among the leaders, bringing companies together to work collaboratively to solve challenges.

How we engage with them

We engage in multi-stakeholder initiatives and drive collaboration with trade groups and industry peers, contributing technology, resources, and expertise to scale our influence and impact.

How we responded in FY21

To help drive greater environmental and social responsibility across the upstream supply chain, we actively support multi-stakeholder initiatives to leverage collective influence for greater positive change.

In early 2021, President Joseph R. Biden signed Executive Order 14017 that ordered a US government review of four critical US supply chains, including critical minerals.

Recognizing that the review would likely emphasize a dramatic scaling up of domestic US mineral production, we – along with our industry peers – anticipated the potential risks and impacts to affected communities should new mining projects be identified to fill strategic supply chain gaps.

We were proud to leverage our role and influence within the Initiative for Responsible Mining Assurance (IRMA), a third-party organization that assesses mines globally for their level of conformance to a set of rigorous environmental and social standards, to support outreach to the Biden Administration to collectively advocate for strong environmental and social standards to be a core tenet of any new domestic mining that may result due to a new focus on domestic "on-shoring" of minerals production.

Our collective efforts successfully resulted in the prioritization of environmental and social standards in the initial 100-day report, which also specifically called-out IRMA's Standard for sustainable mining. This is just one example of how we leverage broader initiatives to scale positive influence beyond what we can achieve as an individual company.

Embedding our values

Robust governance, principles, and frameworks ensure that sustainability is embedded in our actions and that we identify and act on opportunities and risks.

Regulatory and Public Policy Committee

The Regulatory and Public Policy Committee helps the Microsoft Board of Directors oversee and manage key non-financial regulatory risks that may have a material impact on the company. It has a particular focus on sustaining trust with key stakeholders, such as employees, suppliers, and the public.

The Regulatory and Public Policy Committee reviews policies and programs and related risks that concern legal, regulatory, and compliance matters. It works in cooperation with Microsoft's CEO, Satya Nadella, his leadership team, and others across Microsoft to oversee Microsoft's commitments to environmental sustainability and corporate social responsibility, including both legal and corporate commitments. The RPPC annually reviews and approves Microsoft's Modern Slavery and Human Trafficking Statement, which details Microsoft's actions to minimize the risk of modern slavery and human trafficking in its operations and business supply chains, including Devices hardware.

Microsoft corporate policies

Standards of Business Conduct

Define our values and establish a corporate-wide commitment to ethical business practices and legal compliance, including respect for human rights

Require annual training of all employees to ensure understanding and compliance

Global Human Rights Statement

Outlines our commitment and approach to respecting human rights in our operations and across our supply chains

References our respect for specific international human rights instruments, which prohibit all forms of modern slavery and human trafficking

Find out more

Microsoft Supplier Code of Conduct

Requires all manufacturing suppliers and service providers, including our Microsoft partners, to embrace our commitment to integrity and ethical behavior

Bans all forms of forced labor, including indentured labor, bonded labor, or any other form of forced labor

Find out more

Standards of Business Conduct

At Microsoft, our Standards of Business Conduct define our values and a corporate-wide commitment to ethical business practices and legal compliance. All Microsoft employees are required to comply with the Standards of Business Conduct in all countries where we operate. The Standards are available in 18 languages and dialects and are reinforced through online training, which is an annual requirement for all Microsoft employees.

Microsoft Global Human Rights Statement

Our commitment to respect the human rights of our employees, customers, suppliers, and individuals in the communities in which we operate is embedded in our Standards of Business Conduct and further described in the Microsoft Global Human Rights Statement. The Global Human Rights Statement is available in 12 languages and dialects and adheres to the United Nations Guiding Principles on Business and Human Rights and the Global Network Initiative Principles. The statement outlines our commitment and approach to respecting human rights in our operations and across our supply chains and applies to Microsoft and all its subsidiaries.

Microsoft Supplier Code of Conduct

Microsoft requires all manufacturing suppliers and service providers to embrace our commitment to integrity and ethical behavior through our Supplier Code of Conduct. The Code requires suppliers to maintain safe working conditions, treat workers with respect and dignity, and conduct their business in an environmentally responsible and ethical manner. The Microsoft Supplier Code of Conduct, which is available in 26 languages and dialects, is included as a standard onboarding and contractual requirement across our entire corporate supply chain. Suppliers are contractually required to apply the Microsoft Supplier Code of Conduct to their direct and sub-tier supply chains, expanding its scope and impact across all levels of the Microsoft supply chain.

Embedding our values (continued)

Devices Responsible Sourcing Policies

Social and Environmental Accountability (SEA) Requirements

Included as standard terms in our contracts with directly contracted hardware, server, and packaging suppliers; provides basis for supplier audits

Address freely chosen employment, child labor prohibitions, worker living conditions and wages, safe working practices, responsible sourcing, and EHS protection

Find out more

Responsible Sourcing of Raw Materials Policy

Extends our Supplier Code of Conduct to furthest reaches of our upstream supply chain in support of human rights, labor, health and safety, environmental protection, and business ethics

Informed by OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

Find out more

Social and Environmental Accountability (SEA) requirements

Microsoft also requires that suppliers producing Microsoft Devices and Devices packaging meet the Microsoft SEA requirements. These SEA requirements provide Microsoft's expectations for suppliers working in the electronics manufacturing sector to protect workers' human rights.

The SEA requirements are contained in H02050 – Microsoft's SEA Manual – and are included as standard terms in our contracts with directly contracted Devices and Devices packaging suppliers. We also require our suppliers to include the SEA requirements in contracts with their sub-tier suppliers, scaling and reinforcing these SEA requirements across Microsoft's indirect supply chain. Third-party auditors audit our suppliers against these SEA requirements and those that are found to be non-conformant risk business termination with Microsoft.

Responsible Sourcing of Raw Materials (RSRM) policy

The Microsoft RSRM Policy formalizes our values and approach to responsible upstream sourcing and extends the Supplier Code of Conduct to our Devices and upstream supply chain.

It is global in scope and applies to all substances used in our Devices and Devices packaging, unbounded by materials or geographic origin.

Our compliance model

We build sustainability-related legal and market requirements and voluntary measures into our Responsible Sourcing program. Our compliance model provides an end-to-end system to ensure that we meet these requirements.

We apply the International Organization for Standardization (ISO) management systems approach, including the requirement for continuous improvement. For example, our ISO 14001-certified Environmental Management System drives continuous improvement in our environmental programs. Our compliance declarations assure our customers and stakeholders of conformance to both laws and environmental regulations.

We leverage the Microsoft growth mindset to our thinking about responsible sourcing. This means that we promote learning to create a shared understanding of risk and manage it together with our suppliers.

Our sustainability framework

Our technical experts, digital technology, and documented processes are foundational to our operating model. Around the world, our experts speak the local language and understand the local culture. Our in-house experts who work on responsible sourcing matters partner with each other and with external stakeholders throughout the value chain to drive innovation and knowledge sharing.

Our programs are designed and managed by experts including environmental sustainability specialists, regulatory program managers, manufacturing managers, sourcing category managers, health and safety managers, human rights and supplier labor experts, policy experts, attorneys, auditors, sustainability reporting and communications experts, our suppliers, and others.

Principles and frameworks

Our principles are shaped and guided by the recommendations, frameworks, and standards of leading international organizations and experts. As a baseline, our approach is aligned with best-practice guidance, including the United Nations' Guiding Principles on Human Rights (UNGPs), the International Labour Organization (ILO) core labor standards, and the five steps of the Organisation for Economic Cooperation and Development guidelines for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance). The five steps are: (1) establishing strong management systems, policies and systems of control; (2) identifying and assessing risks in the supply chain; (3) developing and implementing strategies to respond to identified risks; (4) carrying out independent third-party audits of supply chain due diligence; and (5) transparently reporting on due diligence policies and practices.

Supporting global progress

The UN Sustainable Development Goals (SDGs) have been a game changer in mobilizing global stakeholders to bring about positive change.

Helping to deliver the UN Sustainable Development Goals

Our mission to empower every person and every organization on the planet to achieve more aligns strongly with the ambitions of the SDGs. The tech industry is an essential enabler of all 17 SDGs and contributes to more than half of the 231 SDG indicators.

Our Responsible Sourcing program plays an important role in delivering solutions that accelerate progress towards achieving the SDGs. Robust standards and collaboration to shape global supply chains drive meaningful improvements for workers, local communities, and the environment.

We track our contribution to the UN Sustainability Goals as part of Microsoft's commitment to empowering sustainable development for everyone and ensuring everyone has access to the benefits technology provides and the opportunities it creates.

What are the SDGs?

The SDGs are the global blueprint for a better and more sustainable future for all by 2030. The 17 Goals address crucial challenges including those related to poverty, inequality, climate change, environmental degradation, peace, and justice.

Find out more

Digital solutions for 21st century challenges

Improve people's quality of life

450m

Digital solutions can provide better access to education for 450 million people.

Foster equitable growth

$11tn

Digital solutions are expected to generate over $11 trillion in economic benefits per year by 2030.

Protect the environment

20%

Digital solutions can enable a 20% reduction in global CO_2e emissions by 2030.[1]

1 2smarter2030.gesi.org

UN Global Compact

The UN Global Compact (UNGC) seeks to advance universal principles on human rights, labor, environment, and anti-corruption through the voluntary engagement of the corporate community. Microsoft endorsed the UNGC in 2006. Over a decade later, we remain firmly committed to its 10 principles and we communicate progress annually on how we are achieving them.

Partnering for change

Many of the challenges in the upstream supply chain are industry-wide and it is impossible for any single company to solve them alone. Industry-wide partnerships enable us to achieve positive, long-term change.

Microsoft's size and influence means we can help transform supply chains on a global scale. As a downstream purchaser, our influence is greatest among our directly contracted suppliers. When we do not have a direct relationship with suppliers, we drive improvements using strategic cross-sector partnerships and co-innovation spanning global supply chains. The aim is to go beyond compliance to build greater capacity along the supply chain and across industries to improve visibility, influence, and accountability.

We collaborate with individuals, NGOs, governments, and enterprises to foster equitable growth in our supply chain. Examples of our collaborations and capability building include:

The Responsible Business Alliance (RBA)

We actively engage with and within the RBA to understand and influence best practices across the industry, focusing on responsible sourcing issues in manufacturing.

Initiative for Responsible Mining Assurance (IRMA)

As a Board member and project partner, we actively support IRMA in its mission to protect people and the environment from the impacts of mining.

Responsible Mineral Initiative (RMI)

We support RMI in its work to improve standards and transparency across global minerals supply chains. Microsoft is chair of the RMI Steering Committee.

IMPACT

We partner with IMPACT to equitably improve responsible sourcing of cobalt from the artisanal and small-scale mining sector in the Democratic Republic of the Congo (DRC).

Pact

We partner with Pact to tackle the root causes of child labor and inequalities in mining through on-the-ground projects in the DRC.

Raising standards in mining with IRMA

Serious human rights and environmental risks may be associated with minerals mining and production, including the potential use of forced and child labor, hazardous working conditions, and use of chemicals. Microsoft actively supports IRMA in its mission to protect people and the environment from the impacts of mining. IRMA provides independent third-party verification and certification against a comprehensive standard for mined materials to drive more socially and environmentally responsible mining.

Microsoft holds a leadership role in IRMA, representing the purchaser constituency on the IRMA Board of Directors and helping steer the initiative in its work to unlock value for mining organizations to improve environmental and social responsibility through the implementation of IRMA standards.

In 2020, Microsoft supported IRMA's critical programmatic response to the COVID-19 pandemic, which created challenges for the auditing and verification of mine performance. Microsoft supported IRMA's efforts to explore the use of technology and remote sensing to enhance assurance programs and achieve a robust review of mine performance.

Additionally, we supported IRMA's development of enhanced distance-learning tools that will continue to build the capacity of mining companies and auditors through the challenging times of the pandemic and beyond. These programs are investments in a future where the need for advanced technology and stakeholder engagement will continue to increase.

Partnering for change (continued)

Addressing the root causes of child labor with Pact

A component of Microsoft's Responsible Sourcing of Raw Materials strategy is to empower affected communities to manage the impacts of raw materials sourcing and build resilience for a post-mining future.

According to the US Department of Labor, child labor is a recognized risk associated with the mining of critical minerals used by the technology industry and other sectors.[2] Since 2015, Microsoft has partnered with Pact, an international NGO with a long history of promoting social responsibility in supply chains, to tackle the root causes of child labor in artisanal and small-scale mining (ASM).

In 2017, Microsoft expanded the partnership with the Baadaye ya Watoto (BYW), or "Children's Future" project, to further build awareness, strengthen local systems to sustainably address the root causes of child labor, and increase accountability among upstream mineral suppliers, this time in the copper-cobalt sector.

The BYW project included training for parents and suppliers, development of neighborhood committees, and technical support for the mining regulatory service and key child protective services in the region. Through this partnership, the project identified 1,894 children working at mine sites and conducted sensitization of 11,219 people (50 percent were children) on the worst forms of child labor, children's rights, and positive parenting skills.

Importantly, the BYW project integrated a signature Pact economic strengthening model, known as WORTH, that provided specialized curricula designed for the ASM sector focused on savings and financial literacy for adult miners.

In an impact evaluation performed for Microsoft, Pact found that the project had enabled several families to better meet the fundamental educational and healthcare needs of their children.

Overall:

60%
of children identified in WORTH member households are enrolled in school

89%
of households are able to adequately provide meals to their children

>60%
of WORTH respondents indicated that they could provide better care for their children

The project had enabled its

384
participants to save over

$79,200
further enabling the cooperatives to disburse over

$54,300
in loans, spurring investment in microenterprises that will reduce the financial imperative for children to turn to mining

2 https://www.dol.gov/sites/dolgov/files/ILAB/child_labor_reports/tda2019/2020_TVPRA_List_Online_Final.pdf

Operating with integrity

Contents

Overview of our approach	24
Managing risk in our supply chain	25
Increasing supply chain resilience	29
Safeguarding access to and availability of raw materials	31
Sourcing raw materials responsibly	33

raise supply chain standards

Operating with integrity to

Overview of our approach

Our value of integrity means we strive to be honest, ethical, and trustworthy. To operate with integrity, we must put the right processes in place and work with our suppliers to uphold high standards and address risks in our supply chain.

Managing risk in the supply chain

Our Responsible Sourcing program is focused on learning together to create a shared understanding of risks and how to manage them. We partner with our suppliers to operate a responsible and resilient supply chain, developing the capabilities suppliers need to self-manage risks and embed long-term change.

See page 25

Increasing supply chain resilience

We work hard to address complex issues and secure a resilient supply chain. Engaging people is at the core of our approach; it is the people who operate across the entire supply chain who enable us to identify problems and develop solutions.

See page 29

Sourcing raw materials responsibly

We are committed to the responsible sourcing of raw materials used in our devices. This means we hold ourselves and our suppliers accountable for addressing the risks inherent in raw materials supply chains including health and safety, human rights, labor, environmental management, and ethical business. To drive change, we work with others to initiate collaborations and forge partnerships, educate and build awareness and understanding, and make choices to uphold high standards and build a resilient and ethical raw materials supply chain.

Upholding our responsibilities begins with setting the required standards. We partner with our suppliers to build capacity to meet our standards. As a baseline, we require our direct suppliers to incorporate our Microsoft Supplier Code of Conduct and Supplier Social and Environmental Accountability (SEA) Manual requirements into their sourcing practices. They must also pass our standards on to their own suppliers and ensure they are contractually enforced across the supply chain.

We actively evaluate and monitor directly contracted supplier facilities involved in our Responsible Sourcing program. This provides vital insight into our suppliers' risks, activities, and improvements. It also deepens our understanding of risks, ensures non-conformances are remediated and informs the development of strategies and programs to address risks across the supply chain. Supplier audits are just one of the tools we use to build supplier expertise, develop robust management systems, and target our interventions where they are needed most.

See page 33

Managing risk in our supply chain

Our supply chain is complex and involves a vast number of suppliers who operate at different tiers in the chain. To manage this complexity, we implement a robust, risk-based approach that reinforces integrity at every step. Our aim is to be a partner for continuous improvement by collaborating with suppliers to build capacity and facilitate change beyond ensuring compliance.

We align our risk management approach with the UN Guiding Principles for identifying human rights issues. This ensures that we identify and manage salient human rights issues in our supply chain.

High-level factors accounted for in our supplier risk management approach:

1. Environmental, health and safety and social (EHSS) risks
2. Value of our spend
3. Ability to influence
4. Connection to our products and services

Robust due diligence is our foundation, designed to ensure that the workers who make our devices are kept safe and treated fairly and with the dignity every human being deserves. For example, our due diligence approach for raw materials is aligned to the OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance).

Developing strong, proactive relationships with suppliers to enable change is core to our risk management approach. Our influence is strongest with our direct suppliers, including the 414 supplier factories contracted by Microsoft Devices to produce the 94 different products that are available to our customers. These suppliers are a key focus of our supplier due diligence and engagement.

Our influence is weakest at the farthest reaches of the upstream supply chain, including among suppliers that extract and process the raw materials we use to make our products. Here, our efforts to manage risks include partnerships and collaboration to drive industry-wide change. We seize on opportunities to leverage technology to increase transparency across our entire supply chain.

See page 7 for more information

Our global risk management system

Our global risk management system focuses on managing and mitigating risks in the supply chain and our suppliers' operations at every step of our relationship.

Risk management starts with supplier selection and onboarding and continues through regular annual risk assessments and social and environmental accountability audits, which are followed by corrective and preventative actions when warranted. When we find that a supplier has not implemented corrective actions, resulting in repeat non-conformance findings, our process systematically restricts the facility from gaining new business. Global risk assessment and audit programs generate valuable data that we use to drive improvement and transparency.

- Onboarding new suppliers
- Conducting audits and assessments
- Investing in capabilities
- Supporting continuous improvement

Onboarding new suppliers

When a new supplier or factory joins our supply chain, they bring new risks and capability building needs. To address this, we built a robust onboarding process. Before Devices engages with a new supplier, the company and its factory are vetted through the Responsible Sourcing program.

The Responsible Sourcing team evaluates the supplier's profile and the capability of its management systems to manage risk and understand the risks associated with production. Onboarding is conditional on a risk assessment and a positive recommendation from the Responsible Sourcing team.

In FY21, we adopted a pre-onboarding survey questionnaire for potential new factories. This survey enables Responsible Sourcing to influence business decisions by providing initial insights regarding a supplier's risk before contracts are signed. The survey also provides the business with useful information more quickly than audits and builds partnership between internal Microsoft teams on responsible sourcing issues.

An initial capability assessment audit is conducted shortly after the survey questionnaire to provide greater visibility and due diligence to the onboarding process. If we find any non-conformances to our standards, a corrective action plan is put in place before production begins. If a factory cannot meet our requirements, they are restricted from doing business with us until non-conformance issues are remedied.

Managing risk in our supply chain (continued)

Once a supplier is formally contracted, we equip them with the tools they need to understand our expectations and cultivate a culture of responsible sourcing within their organization. Through our SEA Academy, they receive a series of online courses which set out specific Microsoft SEA requirements.

By the end of June 2021, 206 suppliers had completed training, resulting in a 27 percent increase in knowledge on average.

By the end of June 2021

206

suppliers had completed SEA requirements training

We use several types of audits and assessments to measure supplier performance and compliance with our standards

1. Third-party initial capability assessments
2. Sustaining audits to re-verify compliance
3. Corrective action follow-ups
4. Factory visits
5. Investigations led by the Devices Responsible Sourcing team
6. Industry audits led by the Responsible Business Alliance

Conducting audits and assessments

Verifying performance

Regular assessments and audits of directly contracted hardware manufacturers and repair and refurbishment partners are a key method we use to verify compliance with our standards and drive continuous improvement.

Microsoft's Audit Management System (AMS) provides robust assurance of our responsible sourcing efforts. AMS connects suppliers, audit firms, Microsoft Sourcing Managers, and the Devices Responsible Sourcing team through a seamless audit reporting tool. Third-party audits are fundamental to managing supplier performance: they enable us to scale our understanding throughout the supply chain, identify risks at our supplier sites, and monitor improvements with objectivity and specialist expertise.

These qualifications ensure auditors have adequate expertise in assessing factory performance and detecting risks such as forced labor and risks to workers' health and safety. We have a strict quality assurance process in place for our third-party audit firms to ensure reliable and accountable results.

To ensure audit quality, only Microsoft-approved auditors can conduct SEA audits to Microsoft standards. We require industry-wide accredited auditor qualifications, including: RBA Labor & Ethics auditor qualification and/or SA8000 auditor qualification for labor auditors; and RBA EHS auditor qualification, ISO 45001 auditor qualification and/or certified safety or environmental engineer for EHS auditors.

Audits in FY21

In FY21, we conducted a risk assessment of 100 percent of our active factories, assessing the conditions of a supply chain that employs 1,007,697 workers including 11,915 international migrant workers. This includes all the new suppliers and the risk assessment includes both environmental and social criteria.

In total, we completed 540 audits and assessments of 414 active factories. This included 242 third-party audits and 298 corrective action audits. We closed out 1,447 major and serious non-conformances across our suppliers.

During the audits, 4,830 workers were interviewed to understand their working conditions and cross-check information from other sources such as factory documents and records, on-site observations, and public reporting.

We published audit non-conformance (NC) results via the interactive Power BI dashboard. Please see Figure 1 for the top NCs, which included: working hours; occupational safety; supplier responsibility related to Labor and Ethics (LE) and Environment, Health and Safety (EHS) practices; emergency preparedness; wages and benefits; industrial hygiene; freely chosen employment; hazardous substances; child labor avoidance.

Fourteen supplier factories completed a third-party audit before starting production as part of the onboarding process. In all, 79 major and serious non-conformances were found to our standards and all suppliers with non-conformance findings have established corrective action plans to address them.

Completed

540

audits and assessments of

414

of our active factories

Risk assessment carried out for

100%

of our active factories

Figure 1:
FY21 Top 10 non-conformance results

Managing risk in our supply chain (continued)

We use the outcomes of audits to track how suppliers are conforming to Microsoft's standards and to ensure that any necessary corrective actions are put in place. We require these action plans to remedy any non-conformance with our standards.

Suppliers must follow strict timelines to address non-conformance findings. Timelines are based on the level of severity of the issue and can range from 24 hours to 30 days or 60 days. Follow-up audits are conducted to ensure corrective actions are implemented and findings are closed.

In FY21

100%

of audited suppliers conducted a survey to understand the view of their workers

We carried out

17

enhancements to improve the SEA Academy online platform for suppliers during the pandemic, supporting training and survey needs and the Workers' Voice Hotline

We also require our suppliers to conduct an annual satisfaction survey to understand the views of their workers and respond to worker feedback. In FY21, 100 percent of audited suppliers conducted a survey to understand the view of their workers.

Investing in capabilities

From the outset of our relationship with a supplier, we need them to understand Microsoft's values and expectations. These extend beyond conformance and include proactive risk mitigation, supplier accountability, and commitment to resolve issues sustainably.

We use what we learn from auditing and risk management to build suppliers' capabilities, notably through the Microsoft SEA Academy. This online platform provides communication and training programs designed to develop the capabilities of suppliers' management teams, workers, and third-party auditors, as well as internal Microsoft teams. Its objective is to build a thorough understanding of what we require to help drive continuous improvement by developing capabilities across the supply chain.

One supplier, who received a forced labor non-conformance in a Microsoft audit, joined the Responsible Recruitment toolkit training and reported:

"The Responsible Recruitment Due Diligence (RRDD) toolkit helped us to draft the assessment checklist for the labor agencies in sending and receiving countries, and the worker interview questionnaires also helped us to understand the risks associated with workers, especially on recruitment related fees."

CSR Representative,
Devices Supplier Singapore Facility

The SEA Academy assigns online courses to new suppliers to build knowledge of our SEA standards, including labor and EHS requirements, business ethics, audit processes, and tools.

We also hold quarterly webinars to educate suppliers on regulatory changes and application of Microsoft policy or procedure updates. In FY21, there were five webinars for suppliers. The topics covered: compliance requirements of China volatile organic compounds (VOCs) standards; Microsoft Workers' Voice Hotline introduction; chemical procurement and storage and explosive precursor chemical management; 2020-2021 EHS laws and regulations update; and lessons learned from non-Microsoft factory incidents. 1,188 people attended the five webinars and 99 percent of those who completed the post-training evaluation provided positive feedback on capability improvement.

Based on audit findings, we noticed that many supplier non-conformances are associated with supplier management system failure. In FY21, we launched a new Management System course to improve suppliers' management system capabilities and sub-tier supplier management. We also engaged with the Responsible Labor Initiative (RLI) to deliver a practical training on a Responsible Recruitment toolkit to selected suppliers in high-risk countries. To support our Workers' Voice Hotline program, we developed two online courses focused on communication and grievance management (for factory supervisors and managers), and communicating with management (for factory workers). These courses are assigned to factories needing worker grievance handling capability improvement.

Managing risk in our supply chain (continued)

Supporting continuous improvement

We follow a "plan-do-check-act" cycle to drive continuous supplier improvement. Annually, we evaluate every factory in terms of country risk, audit performance, and production process risk to define SEA risk and prioritize audit planning. SEA Program Managers shadow audits at high-risk factories and review audit reports to control audit quality and confirm identified non-conformances. They work closely with suppliers to identify root causes and develop corrective and preventive action plans to address NCs. The ultimate aim is put suppliers in a position to self-manage their SEA risks.

We also train third-party auditors to enhance their capability to perform on-site risk assessments and assess supplier compliance. In FY21, eight online courses were released to third-party auditors at four audit firms. 97 percent of auditors covering countries and regions where Devices supplier factories were located completed the training by the end of June 2021. According to pre-and post-course assessments, there was a 54 percent increase in knowledge on average.

Consistency and collaboration between internal Microsoft teams is the foundation of our holistic approach. Training is also provided to the New Product Introduction (NPI) Team, Strategic Sourcing Team and Factory Management Team to ensure compliance is embedded in procurement decision-making processes. In FY21, five SEA trainings were held for Sourcing Managers, Factory Managers, and Manufacturing Engineers, as well as the NPI Team.

97%
of third-party auditors completed Microsoft training by the end of June 2021

Resulting in a
54%
increase in knowledge on average

Increasing supply chain resilience

Disruptive events, like COVID-19, have put supply chain resilience front and center of business risk management globally. Building resilience means creating a supply chain where suppliers can self-manage their risks and help to embed long-term change.

In FY21, the pandemic raised the topic of supply chain resilience even higher on the business agenda with uncertainty and worker well-being impacting production and supply.

The pandemic served to underline the crucial role of a resilient supply chain in Microsoft's long-term success. We monitored national COVID-19 policies that had the potential to impact production capacity, our ability to carry out audits, and the need to protect worker rights.

Other trends that threaten tech sector supply chains today include changing geopolitical policies and agendas, climate change risks and non-conformance at raw material smelters.

See page 9 for more information

Resilient supply chains can weather shocks and challenges and continue to meet business needs in a sustainable way. They require suppliers to plan for and anticipate challenges, strengthen their capabilities, and integrate human rights and employee welfare into their metrics. We advance this capability by looking at the management systems our suppliers put in place to understand risk, implement strategy, analyze performance, and drive continuous improvement.

Building the capability of suppliers to achieve proactive risk management is an indicator of supplier self-management and resilience. Our aim is for all suppliers to meet our requirements and we work with them to understand and respond to their development needs.

Our ultimate goal is to have a supply chain that features zero restricted factories, supplier resilience, and effective management systems.

Our proactive risk management strategies are based on:

1. Emerging trends and risks identified across different sourcing categories
2. Changing legal landscapes
3. New standards
4. Evolving stakeholder expectations

This is an ongoing challenge that we address primarily through our SEA Academy training programs and collaborative category strategies. These initiatives drive performance and self-management of key risks in partnership with suppliers in the context of their production processes and unique challenges specific to their category.

For example, in FY21, we built a dashboard that identified climate risks relating to the location of factories in our supply chain. This enabled us to prioritize climate risks at factories and ensure business continuity plans are in place to manage them. For potential new assembly sites, we drafted a playbook that sets a precedent by embedding Responsible Sourcing requirements, best practices and strong management systems into factory operations from day one. This way, sites can be "best in class" at the start of their production for Microsoft.

We also integrated expectations for supplier categories that are impacted by new Chinese government environmental regulations. Our programs meet the requirements on raw materials and socially responsible manufacturing due diligence. This enables us to register our Surface products at the highest "gold" level in the Global Electronics Council's EPEAT program.

Looking ahead, we want to see more suppliers demonstrating strong self-management of our responsible sourcing requirements. FY21 was a year of transition. Our next focus will be on tracking and evaluating the strength of supplier ownership, championed by our strategic suppliers setting baselines and developing paths to support maturation of their management systems.

Increasing supply chain resilience (continued)

Outlook 2022: Responsible sourcing is key to building more resilient supply chains

The past year has shone a spotlight on the reliance of global economies on supply chain continuity. The pandemic severely tested the ability of global supply chains to react and respond to shortages, disruptions, and border closures.

The ability to monitor supply chain compliance with sustainability and human rights standards has also been tested by the pandemic. This challenge was particularly acute where restrictions impeded on-site audits and assessments of supply chain actors, from mine sites, and smelters to factories.

Despite the challenges, our expectations for responsible sourcing did not waver. We focused on supporting the enablers of a resilient and transparent supply chain.

For example, we supported the Initiative for Responsible Mining Assurance's (IRMA) exploration of new methods of supply chain monitoring and evaluation.

The recent review into critical US supply chains, ordered by President Joseph R. Biden's Executive Order 14017, highlights vulnerabilities that, if left unchecked, could threaten future supply chain continuity. The Executive Order particularly emphasizes the need for a more resilient critical minerals supply chain. It highlights the need for the US to expand domestic production and processing of key critical minerals to reduce reliance on foreign supply. It also calls for increased mineral production to be done responsibly, with new mining meeting environmental and social standards such as the IRMA Standard. Finally, the review flagged the need for "sustainably-produced" content and labeling standards to ensure consistent environmental standards across supply chains, creating opportunities for informed consumer choice and driving the market for sustainably sourced critical minerals.

As we look beyond the pandemic, we will continue to pursue partnerships and initiatives that seek to improve standards and oversight of the end-to-end supply chain, including critical minerals. Using our influence and expertise to develop technologies and processes to improve supply chain transparency will be central to our approach.

> "Supply chains are being tested, and yet global expectations for environmental and social responsibility throughout the supply chain have not changed. As demands for some materials increase, it's essential that responsible sourcing creates strong expectations for best practices where raw materials are sourced and processed. We appreciate Microsoft communicating these expectations throughout their supply chains."

Aimee Boulanger
Executive Director
Initiative for Responsible Mining Assurance (IRMA)

Safeguarding access to and availability of raw materials

We use a wide array of raw materials and minerals to make our devices. Access to them is essential for Microsoft to be able to continue to deliver products that empower people to do more. Security of supply is a long-term issue involving many stakeholders, including industry, governments, and communities affected by mining.

Our devices depend on critical minerals that are extracted from the Earth. The technology behind Microsoft's devices relies on metals such as aluminum, copper, and gold and their batteries rely on cobalt, lithium, and nickel. These materials are crucial to the functioning and performance of our devices. They are difficult to substitute without significant trade-offs in function, performance, quality, or cost.

A key challenge associated with critical minerals is their finite supply, coupled with rising global demand for technology. Many of the materials that our devices depend on are also key to many other high-tech applications. For example, they are in high demand among manufacturers of electric vehicles and the infrastructure that underpins renewable energy, such as wind turbines and large-scale energy storage. As these technologies scale up as part of the low-carbon transition, demand for these materials is expected to increase – perhaps exponentially, placing greater strain on global supply chains.

Some critical mineral supply chains are heavily concentrated in a small number of countries and with a limited number of suppliers and processors, creating choke points that are vulnerable to trade restrictions or other impacts. Greater resource competition as well as threats to global supply chains, will create challenges to continuity of supply.

As the world looks to technology to provide the solutions to a low-carbon future, demand for critical minerals will increase. At the same time, human rights and environmental challenges associated with the minerals supply chain, including security of supply, human rights risks, and mining environmental impacts, will continue.

These challenges give manufacturers an incentive to pursue technologies that are more resource-efficient, offer better recyclability, and use recaptured and recycled materials, as well as developing alternatives that reduce their reliance on critical minerals.

One solution the electronics industry is pursuing is to reclaim and reuse materials from products at the end of their useful life, as part of a "circular economy" approach. However, the rate of this type of recycling is currently extremely low. Each element of a device is different in terms of how easy it is to recapture for reuse and how easy it is to put back into the manufacturing supply chain. It will be challenging to develop the recapture techniques and processing capability to demonstrate that recycled minerals are of an acceptable purity and grade for reuse.

No single player can solve this challenge alone and our aim is to leverage our influence and expertise to help drive the agenda globally. Recycling the minerals in discarded technology products (also known as Electrical and Electronic Equipment, or EEE waste) must be part of the long-term solution to supply chain security and sustainability. Technology companies have a role to play in developing the solutions and infrastructure needed to extract and reuse minerals from EEE waste. The investment decisions we make now will help reduce future supply continuity risks. We must take a holistic view that looks beyond the short-term costs of action and considers the long-term benefits for supply chain security.

For more information about our approach to recycling and EEE waste see page 47

Safeguarding access to and availability of raw materials (continued)

Maintaining supply of raw materials during the pandemic

The global pandemic forced a fundamental shift in how much of the world does business, with the rise in remote working driving demand for the technology that makes it possible.

This has, in turn, increased global demand for critical minerals that are integral to these applications. At the same time, the pandemic reduced or halted mining activities and caused supply chain disruption. In some places, there are concerns about increased social and environmental risks to mining-affected communities. With lockdowns and border restrictions creating obstacles to the monitoring and enforcement of mining standards, oversight of the global minerals supply chain is more important than ever.[1] The need to ensure responsible sourcing has not changed.

At the mine site level, it has been important for evaluations and assessments to take place to ensure large-scale mines are continuing to meet environmental, social, and governance standards. The global travel restrictions caused by the pandemic have prevented auditors from physically accessing mine sites, making it difficult to confirm and verify mine performance. To address this gap in assurance, Microsoft supported the Initiative for Responsible Mining Assurance (IRMA), which assesses mines globally for their level of conformance to a set of rigorous environmental and social standards.

Our aim is to ensure that raw materials assurance continues in spite of COVID-19. Microsoft supported IRMA's efforts to explore the use of technology and remote sensing to enhance assurance programs and review mine performance.

We have also supported IRMA's development of enhanced distance-learning tools that will continue to build the capacity of mining companies and auditors through the pandemic and beyond.

Our need to verify that the smelters in our supply chain conform to international standards is equally acute. As with mine sites, smelter oversight and assurance has also been impacted by the pandemic. Economic uncertainty has led to fluctuating mineral demand, causing some smelters to change, suspend, or cease operations. As well as impacting capacity, this creates uncertainty from a due diligence perspective regarding which smelters are active or inactive at any given time.

As many of these challenges to the upstream supply chain are industry-wide, it is impossible for any single company to solve them alone. We must work together to develop collaborative solutions that enable long-term change.

We will continue to work closely with the Responsible Minerals Initiative (RMI) as it engages with smelters to oversee an industry-wide assurance process that provides downstream purchasers, such as Microsoft, with confidence in the raw materials used in their manufacturing processes.

1 Jewelry Companies, Changing Sourcing Practices, and COVID-19 | HRW

Sourcing raw materials responsibly

We are committed to the responsible sourcing of raw minerals used in our devices. We hold ourselves and our suppliers accountable for addressing human rights, labor, environmental management, health and safety, and ethical business practices upstream in our supply chain, as well as issues related to high-risk critical minerals.

There are significant challenges associated with the raw materials supply chain. As well as security of supply, these challenges include the human rights and environmental impacts associated with extraction, especially among the artisanal and small-scale mining (ASM) sector.

Human rights risks may include the potential use of forced and child labor, hazardous working conditions such as mine cave-ins and use of hazardous chemicals. Other potential risks include the abuse of indigenous communities' land rights and environmental degradation.

As a downstream company, Microsoft neither directly harvests or mines raw materials, nor sources them directly from raw material providers. Instead, we contract with direct suppliers that manufacture our products and components. These suppliers source materials, components, and products from their own upstream suppliers which, in turn, source materials, components, and products from their upstream suppliers.

Microsoft's multi-tiered supply chain complicates the tracing of minerals to the mining source. Like many tech companies, we are several tiers away from the smelters and mining sites that produce the minerals that go into our products. This means that we do not directly contract with the parts of the supply chain where the greatest risk of human rights abuses exists, reducing our ability to directly influence those actors and their actions through legal and contractual means.

We influence upstream harvesting and mining through policies and practices to manage the risks inherent in raw materials extraction, harvesting, processing, refining, and transportation. Our approach begins with the Microsoft Responsible Sourcing of Raw Materials (RSRM) Policy. This policy extends our values and the Microsoft Supplier Code of Conduct (SCoC) to the furthest reaches of our upstream supply chain. We require our directly contracted suppliers to incorporate the standards set out in these documents in their own sourcing practices.

Microsoft has one of the most complex supply chains in the world.

Please see page 6 for more information

How we extend our values to the furthest reaches of our supply chain

Our RSRM Program is framed by the five steps of the Organization for Economic Cooperation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance) and the United Nations' Guiding Principles on Business and Human Rights. The RSRM policy covers all minerals and materials used in our devices and packaging and comprises five key components, in line with our approach to Responsible Sourcing:

Standardized requirements

Integrating our RSRM requirements into supplier engagements and independent audits. Our RSRM requirements are covered in the Microsoft Social and Environmental Accountability (SEA) Manual.

Assurance and accountability

Increasing the transparency of our due diligence, reporting, and mineral sourcing efforts.

Analysis of risks and opportunities

Mapping the supply chain of identified raw materials and examining and verifying traceability information to identify and mitigate risks.

Capability building

Training employees, suppliers, and raw materials harvesters and extractors to conduct due diligence and uphold our standards, including through Microsoft's SEA Academy.

Creating shared value

Progressing global, social, and environmental improvements through strategic cross-sector and key partnerships. We also support the use of fairly applied global standards and improve access to technology and platforms to drive transparency and accountability.

Sourcing raw materials responsibly (continued)

Increasing transparency

Given the traceability complications in our multi-tiered supply chain, increasing transparency is a key focus of our work. Our efforts include collecting information through our anonymous Business Conduct Hotline, which is available to both Microsoft employees and external stakeholders.

We have extended our mineral transparency reporting efforts under our RSRM policy to include five new minerals (aluminum, copper, lithium, magnesium, and nickel) beyond tin, tungsten, tantalum, gold, and cobalt. And we requested our suppliers to report on smelters used for these additional minerals. As with 3TG and cobalt, we expect that it will take time for us to obtain 100 percent full transparency regarding the sourcing of these minerals. But we are continuing in our quest to understand where we source these minerals and metals from, even if these smelters are not directly contracted with us. Our work is supported by the Responsible Minerals Assurance Process (RMAP), developed by the Responsible Minerals Initiative (RMI), to audit smelters and refiners to validate that they meet international supply chain due diligence standards.

Addressing conflict minerals in the supply chain

Conflict minerals are defined by US legislation to include tin, tantalum, tungsten, and gold (3TG). These minerals are critical to the production of tech products such as laptops, mobile phones, and cars. 3TG are mined in large-scale commercial mines and in the artisanal and small-scale mining (ASM) sector. In the Democratic Republic of Congo (DRC) in particular, 3TG mines have historically provided a source of funding for paramilitary groups engaged in armed conflict. Existing US legislation and more recent European Union regulation aim to prevent 3TG mining from supporting armed conflict or from benefitting armed groups in conflict and high-risk areas, particularly in the DRC and adjoining countries. Microsoft is committed to sourcing minerals that do not directly or indirectly finance armed conflict or benefit armed groups. We provide transparency of our efforts in our annual Conflict Minerals Report.

Download the latest Conflict Minerals Report here

Developing a responsible cobalt supply chain

Cobalt is a key material in the production of batteries, including those used in Microsoft Devices. More than half of the world's cobalt is produced in the DRC which, despite significant natural resource wealth, has struggled to overcome challenges related to limited governance, conflict, human rights violations, poverty, and a lack of transparency.

Many ASM and affected communities in Lualaba province, the primary location for cobalt extraction in the DRC, are impoverished and face threats to their well-being, including food insecurity and environmental pollution.

Companies sourcing cobalt from the DRC have faced increasing pressures related to the presence of risks such as potential human rights violations, including child labor, acute health and safety risks for miners, long-term water contamination, and concerns regarding financial transparency.

To ensure cobalt is sourced responsibly, downstream actors rely on mine-to-market traceability that balances ethical sourcing with inclusivity and market access for ASM.

In FY21, Microsoft Devices supported a pilot project by IMPACT, a Canadian NGO, to study the feasibility of adapting the acclaimed Just Gold mine-to-market methodology for the cobalt sector.

The Just Gold project is the first to successfully trace conflict-free and legal gold from artisanal and small-scale mine sites in the DRC and Côte d'Ivoire to export while applying regional and international standards applicable to conflict-affected and high-risk areas.

Importantly, Just Gold follows a bottom-up approach that engages and empowers local mining communities. It seeks to avoid burdening them with the cost of due diligence, which often has to be paid by the supply chain actors who can least afford it.

The project will enter a second stage in FY22.

Sourcing raw materials responsibly (continued)

Deep seabed mining (DSM)

Deep seabed mining (DSM) is an emerging mining process that involves the retrieval of minerals and deposits from the ocean floor at depths of 200 meters or more. The deep ocean contains many of the same minerals that occur on land, often in enriched forms, as well as minerals that are unique to the seabed.

Due to the early nature of DSM there is uncertainty around its environmental impacts. As such Microsoft has established a moratorium on using minerals sourced through deep seabed mining until the proper research and scientific studies have been completed. We will work with industry partners and our supply chain to explore how we can broaden the scope of our due diligence to provide greater transparency given our limited visibility and influence over mining of materials, including deep seabed mining. In addition, we will continue to engage on this topic via the World Economic Forum's (WEF) Deep Seabed Minerals Dialog, which aims to provide an impartial space for discussion on responsible sourcing considerations for DSM among stakeholders involved in the minerals value chain.

Creating a transparent battery supply chain

Microsoft works to support industry-wide assurance initiatives such as the Responsible Minerals Initiative (RMI) and Initiative for Responsible Mining Assurance (IRMA) to increase transparency in the far upstream of the minerals supply chain, at the smelter and refiner level and at the mine-site level respectively.

We also support the Global Battery Alliance (GBA), a public-private platform of organizations founded to help establish a sustainable battery value chain, to leverage technology to increase the traceability of battery materials throughout the supply chain, for example by developing "battery passports". We intend to advance our work in this area over the next year.

> "As we face ever expanding battery demand from the high-growth electric vehicle and energy storage system markets, the computers, communications, and consumer electronics (3C) market will be under incredible sourcing and manufacturing pressures. It is vital that we have proven processes in place to ensure our battery material supply chain is stable and encompasses a high degree of quality."
>
> **Jeff Bruce**
> Director Battery Technologies

Prioritizing minerals in our supply chain

Each of the minerals used in our technology has unique characteristics in terms of chemistry, utility, and usage, as well as sourcing and ESG risk profiles. It is crucial that our mineral strategies take these differences into account.

In FY21, we developed a new framework for minerals prioritization that considers the different characteristics of the metals in our supply chain including ESG risk, supply chain concentration, price volatility, and depletion rates.

For the first time, we surveyed our supply chain beyond conflict minerals to understand its use of priority metals, including aluminum, cobalt, copper, lithium, magnesium, and nickel. The outcome will help us understand the risks associated with sourcing these materials to inform our holistic response.

Sourcing raw materials responsibly (continued)

Our updated prioritized mineral list and goals

Material	Notable industrial uses	Key industry risks	Top 5 producer countries (with % production share)	FY21 Update	FY22 Goals
Aluminum (and Bauxite) Al	Printed circuit boards	Mineral Depletion Greenhouse Gas Emissions Environmental Degradation Community and Indigenous People's Rights	China 66% India 6% Russia 6% Canada 6% United Arab Emirates 5% **For Bauxite:** Australia 31% Guinea 23% China 17% Brazil 10% Indonesia 6%	Expanded our annual minerals supplier survey beyond conflict minerals to begin identifying, mapping, and understanding the sourcing profile of additional high-profile minerals in our supply chain, including aluminum.	Work with suppliers to implement the Responsible Mineral Initiative (RMI) new industry standard Minerals Agnostic Reporting Template to collect data on aluminum in our annual Devices supplier survey. Support RMI to develop new guidance to assist supply chain actors with meeting due diligence expectations for aluminum even where industry-wide audit programs are still nascent or under development.
Cobalt Co	Lithium-ion batteries	Mineral Depletion Low Rate of Recycling Pollution Environmental Degradation Conflict and Human Rights Labor Rights Child Labor Occupational Health and Safety Lack of Financial Transparency Illicit Financial Flows Negative Impact on Biodiversity and Conservation Community and Indigenous People's Rights Company-Community Conflict	D.R. Congo 75% Russia 5% Australia 4% Philippines 4% Cuba 3%	Continued to work with our suppliers to source from cobalt smelters conformant with the RMI RMAP. Expanded our supplier survey to identify, map, and understand the sourcing profile of cobalt in our supply chain, beyond battery suppliers. Supported a pilot study by Canadian NGO IMPACT to study the feasibility of adapting the acclaimed Just Gold methodology for the cobalt sector. Continued to support activities by US NGO Pact to address the root causes of child labor in mining-affected communities in the DRC cobalt-copper belt.	Support IMPACT to further develop a pilot project that engages and empowers cobalt mining communities and seeks to avoid burdening those upstream actors with the cost of due diligence. Continue supporting Pact through broader industry supported programming (coordinated by RMI) to address socio-economic gaps in mining-affected communities.

Sourcing raw materials responsibly (continued)

Our updated prioritized mineral list and goals (continued)

Material	Notable industrial uses	Key industry risks	Top 5 producer countries (with % production share)	FY21 Update	FY22 Goals
Copper **Cu**	Circuitry Printed circuit boards	Price Volatility Environmental Degradation Community and Indigenous People's Rights Labor Rights Pollution Company-Community Conflict Violence and Conflict Occupational Health and Safety Lack of Financial Transparency	Chile 34% Peru 13% China 10% D.R. Congo 8% United States 7%	We expanded our annual minerals supplier survey beyond conflict minerals to begin identifying, mapping, and understanding the sourcing profile of additional high-profile minerals in our supply chain, including copper.	Work with suppliers to implement RMI's new industry standard Minerals Agnostic Reporting Template to collect data on copper in our annual Devices supplier survey. Support RMI to develop new guidance to assist supply chain actors with meeting due diligence expectations for copper even where industry-wide audit programs are still nascent or under development.
Gold **Au**	Circuitry Printed circuit boards	Mineral Depletion Greenhouse Gas Emissions Pollution Environmental Degradation Community and Indigenous People's Rights Violence and Conflict Forced Labor Labor Rights Child Labor Occupational Health and Safety Lack of Financial Transparency	China 15% Australia 13% Russia 12% United States 8% Canada 7%	We continued to work with our suppliers to source from gold refiners conformant with the RMI RMAP.	Continue to leverage digitization initiatives to improve our annual conflict minerals reporting and to encourage suppliers to source from gold refiners conformant with the RMI RMAP.

Sourcing raw materials responsibly (continued)

Our updated prioritized mineral list and goals (continued)

Material	Notable industrial uses	Key industry risks	Top 5 producer countries (with % production share)	FY21 Update	FY22 Goals
Lithium Li	Lithium-ion batteries	Price Volatility Mineral Depletion Low Recycling Environmental Degradation Community and Indigenous People's Rights Labor Rights Company-Community Conflict	Australia 49% Chile 22% China 17% Argentina 8% Brazil 2%	We expanded our annual minerals supplier survey beyond conflict minerals to begin identifying, mapping, and understanding the sourcing profile of additional high-profile minerals in our supply chain, including lithium.	Work with suppliers to implement RMI's new industry standard Minerals Agnostic Reporting Template to collect data on lithium in our annual Devices supplier survey. Support RMI to develop new guidance to assist supply chain actors with meeting due diligence expectations for lithium even where industry-wide audit programs are still nascent or under development.
Magnesium Mg	Enclosures	High Market Concentration Price Volatility Low Rate of Recycling Greenhouse Gas Emissions Pollution Environmental Degradation Labor Rights Lack of Financial Transparency Illicit Financial Flows	China 72% Brazil 6% Russia 6% Turkey 4% Austria 3%	We expanded our annual minerals supplier survey beyond conflict minerals to begin identifying, mapping, and understanding the sourcing profile of additional high-profile minerals in our supply chain, including magnesium.	Work with suppliers to implement RMI's new industry standard Minerals Agnostic Reporting Template to collect data on magnesium in our annual Devices supplier survey. Support RMI to develop new guidance to assist supply chain actors with meeting due diligence expectations for magnesium even where industry-wide audit programs are still nascent or under development. Leverage technological solutions to pilot improved end-to-end traceability process for magnesium in our Devices supply chain.
Nickel Ni	Printed circuit boards	Price Volatility Greenhouse Gas Emissions Environmental Degradation Community and Indigenous People's Rights Labor Rights Pollution Child Labor	Indonesia 26% Philippines 15% Russia 13% New Caledonia 9% Australia 8%	We expanded our annual minerals supplier survey beyond conflict minerals to begin identifying, mapping, and understanding the sourcing profile of additional high-profile minerals in our supply chain, including nickel.	Work with suppliers to implement RMI's new industry standard Minerals Agnostic Reporting Template to collect data on nickel in our annual Devices supplier survey. Support RMI to develop new guidance to assist supply chain actors with meeting due diligence expectations for nickel even where industry-wide audit programs are still nascent or under development.

Sourcing raw materials responsibly (continued)

Our updated prioritized mineral list and goals (continued)

Material	Notable industrial uses	Key industry risks	Top 5 producer countries (with % production share)	FY21 Update	FY22 Goals
Tantalum **Ta**	Electronics capacitors	Low Rate of Recycling Pollution Environmental Degradation Conflict and Human Rights Labor Rights Lack of Financial Transparency Illicit Financial Flows Community Rights Violence and Conflict Child Labor Occupational Health and Safety Lack of Financial Transparency	D.R. Congo 40% Brazil 22% Rwanda 16% Nigeria 9% China 4%	We continued to work with our suppliers to source from tantalum processors conformant with the RMI RMAP.	Continue to leverage digitization initiatives to improve our annual conflict minerals reporting and to encourage suppliers to source from tantalum processors conformant with the RMI RMAP.
Tin **Sn**	Display screen Solder Batteries	Price Volatility Pollution Environmental Degradation Labor Rights Lack of Financial Transparency Illicit Financial Flows Community Rights Violence and Conflict Occupational Health and Safety	China 30% Indonesia 15% Myanmar 12% Peru 7% D.R. Congo 6%	We continued to work with our suppliers to source from tin smelters conformant with the RMI RMAP. Conducted outreach and engagement with tin smelters, both directly and indirectly, to encourage participation in the RMI RMAP.	Continue to leverage digitization initiatives to improve our annual conflict minerals reporting and to encourage suppliers to source from tin smelters conformant with the RMI RMAP.
Tungsten **W**	Vibration motors	Market Concentration Pollution Environmental Degradation Labor Rights Illicit Financial Flows Violence and Conflict Child Labor	China 83% Vietnam 5% Russia 3% Mongolia 2% Bolivia 2%	We continued to work with our suppliers to source from tungsten smelters conformant with the RMI RMAP.	Continue to leverage digitization initiatives to improve our annual conflict minerals reporting and to encourage suppliers to source from tungsten smelters conformant with the RMI RMAP.

environment

Overview of our approach

The need to protect the world's ecosystems while meeting the needs of a growing global population is becoming increasingly urgent. Managing with accountability means we define clear standards and hold ourselves and our suppliers responsible for our environmental impacts.

Tackling climate change

50%
reduction in Scope 3 carbon emissions by 2030

Microsoft's commitment is to be carbon negative by 2030. Reducing supply chain impacts has a major role to play; our supply chain accounts for a large part of Microsoft's environmental footprint. As part of our global commitment, we have set a target to reduce Scope 3 carbon emissions – including those that arise through our supply chain – by 50 percent by 2030. The manufacturing supply chain is accountable for a significant portion of Microsoft's carbon emissions and our Responsible Sourcing climate change strategy will play a pivotal role. We will begin by working with our most carbon-intensive suppliers to manage their climate impacts by enabling and incentivizing them to reduce and report on their own Scope 1, 2, and 3 emissions.

See page 43 for definitions of Scope 1, 2, and 3 emissions

Managing waste

Zero waste across our direct waste footprint by 2030

Microsoft has committed to achieve zero waste across its global direct waste footprint by 2030. Because measuring and improving recyclability and circularity will be essential to reach this goal, we have set recyclability targets for our products and packaging. Please visit our Environmental Sustainability Report for more information. As we further evaluate future Zero Waste opportunities for Devices, we anticipate there will be implications for our supply chain, including how our products are made. Our Responsible Sourcing program includes a focus on waste reduction, reuse, and recycling, protecting the environment and ensuring the health and safety of our employees, suppliers, and local communities. This extends to the management of waste electrical and electronic equipment (WEEE) as well as hazardous substances used during manufacturing.

See page 47

Reducing air emissions

We address air emissions in our supply chain to protect the health of workers and communities as well as the environment. We work closely with our multiple tiers of suppliers in China. Our focus is on regulatory compliance, operational control (which includes identifying and characterizing emissions sources, treatment, monitoring), and reducing carbon emissions.

See page 49

Water stewardship

Our water stewardship activities drive suppliers to improve water protection and conservation to protect this vital shared resource. Our approach includes monitoring drinking water quality, stormwater management, wastewater compliance, and water reduction. We have launched a new Supply Chain Water Stewardship Project to pilot the implementation and certification of the Alliance for Water Stewardship (AWS) International Water Stewardship Standard with selected suppliers.

See page 50

Tackling climate change

Our bold, science-based carbon targets aim to drive climate action across the supply chain. We aim to play a leading role in reducing emissions across the value chain, in line with what is needed to help tackle the climate crisis.

Despite international climate commitments, like those formally signed in the Paris Agreement in 2016, global emissions continue to rise. The resultant climate change has had a direct and increasingly adverse impact on the planet and society.

In January 2020, Microsoft announced that it will become carbon negative by 2030.

As part of this commitment, we will reduce our emissions by more than half across our operations, including Scope 3 emissions arising from our supply chain. In addition, we will remove an equivalent amount of all our company's emissions since we were founded in 1975, resulting in a net carbon impact that is below zero.

To address our value chain emissions, we will reduce Scope 3 emissions – including those contributed by our supply chain – by 50 percent by 2030.

Microsoft's definitions of carbon neutral and carbon negative:

Carbon neutral

A company is said to be carbon neutral when it offsets its carbon emissions through payments to third-parties for their carbon emission avoidance or carbon emission reductions.

Carbon negative

A company is carbon negative when it removes more carbon than it emits each year. Our definition is that carbon negative must be even bolder than net zero – making deep reductions first and foremost, then using removal only for the residual company's carbon footprint, and going beyond that to cover even more.

Our science-based carbon targets

Microsoft set a science-based target in 2019. The Science Based Targets initiative (SBTi)[1] certified Microsoft's target to reduce its Scope 3 GHG emissions intensity per unit of revenue by 30 percent by 2030 from a 2017 base year and to avoid growth in absolute Scope 3 emissions. This means that for every dollar of revenue, we will reduce our Scope 3 emissions by 30 percent against a 2017 baseline, with a voluntary aspiration to reduce emissions by more than half as part of Microsoft's 2020 carbon negative commitment.

These emissions consider all the activities that contribute towards making our devices. Our most recent product lifecycle assessments confirm that the manufacturing supply chain is accountable for approximately 70 percent of GHG emissions for Surface devices and 20 percent for Xbox devices. Our Responsible Sourcing climate change goals and strategy are focused on reducing these emissions.

The manufacturing supply chain is accountable for:

~70% of Surface devices lifecycle emissions

~20% of Xbox devices lifecycle emissions

1 https://sciencebasedtargets.org

Tackling climate change (continued)

Scopes explained

Scope 1

Direct emissions from owned or controlled sources, created by a company's activities. For example, the exhaust that comes from natural gas that buildings directly consume, and the generators a company might run.

Scope 2

Indirect emissions from the production of the electricity or heat that a company purchases and uses. For example, emissions from the traditional energy sources that power office buildings.

Scope 3

Indirect emissions from all other activities in which a company is engaged. These emission sources can be extensive. They cover all parts of a company's supply chain, from materials in buildings, business travel, and product lifecycle all the way to the electricity its customers consume. This is the largest category of all the different emission scopes and poses one of the largest areas for carbon reduction improvement.

Reducing Scope 3 emissions

Our target is to reduce Scope 3 emissions – including those contributed by the Devices supply chain – by more than half by 2030. To achieve this target, we have outlined an ambitious plan to engage and encourage all strategic suppliers to commit to carbon reduction activities. This is an opportunity to create substantive change through our supplier partnerships by creating shared goals to mitigate climate change. To make the most impact as soon as possible, we have started by targeting suppliers with which we have the most influence and which offer the greatest potential carbon reductions.

In a thorough review of product lifecycle assessments, we have identified the biggest opportunities for reduction, prioritizing 100 suppliers to engage with in FY22.

The priority list is based on the supplier categories that have the greatest contribution to emissions – such as integrated circuits, printed circuit boards, enclosures, and mechanicals – along with our spend with suppliers and how strategic they are for the business.

Lifecycle assessments have identified the levers we can pull to make the biggest shifts in decarbonization. These include supporting suppliers to make the move to 100 percent renewables, increasing process efficiencies and reducing material use and wastes at supplier sites. We will partner with our remaining suppliers in the next fiscal year.

In addition to prioritized engagement, we have a developed a strategic supply chain decarbonization roadmap for the years leading up to 2030. We are asking all our suppliers to join us on our carbon reduction journey and to set their own science-based carbon reduction targets. For many of our suppliers, this may represent a significant effort as they work to formalize their carbon inventories. We aim to partner with others across the industry to create capability-building programs that will support suppliers on this initiative.

Standardizing supplier engagement

As part of our roadmap, we have standardized our engagement plan for our suppliers. We will work with them to manage their carbon footprints by enabling and incentivizing them to reduce and report on their Scope 1, 2, and 3 emissions. Together with other teams across Microsoft, we have built a repository of materials that suppliers can access to understand how to address carbon goals, how to set science-based targets and how to meet other global carbon initiatives. Some of this material can be found here.

Our expectations are that suppliers will commit to setting science-based targets, provide multi-year plans in support of our 2030 goals, and cascade these requirements down to their supply chains. These expectations are included in our supplier manual and stipulated via supplier contracts. Communicating these expectations is a first step towards increased transparency, enabling us to work with suppliers to help reduce their emissions.

We are also supporting suppliers to carry out carbon audits of their Scope 1 and 2 emissions. These audits will help us understand where improvements can be made and will reveal some of the key challenges for our supply base. We have performed five pilot audits for key suppliers in Asia and will continue to implement audits for prioritized suppliers in the coming year.

Tackling climate change (continued)

We use our suppliers' CDP disclosures to assess opportunities for future carbon reductions, including:

1. Corporate climate change policies
2. Carbon reduction targets
3. Energy and renewable energy usage
4. Total carbon emissions from production and transport of products

We request that our hardware suppliers, representing 99 percent of our manufacturing and sourcing spend, report climate change and water security to the Carbon Disclosure Project (CDP), a not-for-profit charity that runs the global disclosure system for organizations to manage their environmental impacts.

We use this information to understand our suppliers' emissions profiles, monitor their progress towards carbon targets, and assess future opportunities for carbon reductions. Our analysis shows that CDP data reporting is not yet consistent year-on-year and not all suppliers measure Scope 1, 2, and 3 emissions. Through setting expectations and monitoring compliance via carbon audits, we will increase the scope and accuracy of suppliers' reporting. This will also enable us to validate the carbon inventory represented by our supply chain.

Of the suppliers requested to participate in CDP reporting in FY21, 91 percent submitted reports, including all Tier 1 Assembly suppliers, up from 83 percent the previous year.

Developing supplier capabilities and transparency

In addition to the rising CDP response rate among our suppliers, reporting quality continues to improve. In June 2021, one key Microsoft cable and connector supplier achieved the Improvement Award on Climate Action from CDP for its improved environmental disclosure. This supplier set up a corporate sustainability team in the last year to guide and coordinate CDP reporting for all of its factories. It communicated the CDP reporting guidance provided by Microsoft and trained its internal team using the unified template and methodology. As a result, the supplier successfully raised its annual CDP score for Climate Change from D to C and for Water Security from D to B-.

Improving supplier emissions data and intervention tracking towards 2030

To scale our efforts across the supply chain and track the progress of interventions that contribute to our carbon goals, we are evolving our internal Audit Management System to include supplier sustainability activities. Enhancements include tracking of science-based carbon reduction targets, supplier commitments and action to deliver these targets, and progress made in achievement of these targets. In the coming year, we will work to assign a "carbon cost" of working with each supplier. This approach will be used by our sourcing and design teams in their future supplier selection process.

Promoting finance to support supplier decarbonization

To support suppliers on their journey towards decarbonization, we promote access to financing opportunities. To start, suppliers can tap into our partnership with the International Finance Corporation (IFC), an international funding institution that offers investment and advisory services to encourage private sector development in developing countries. The partnership will include advisory services to support individual supplier decarbonization efforts and will leverage the strength of the Microsoft balance sheet to offer lower-interest financing.

Tackling climate change (continued)

Integrating supplier strategies into product roadmaps and decision-making

Supplier decarbonization strategies are intrinsically linked to our Devices product roadmaps. We have added cross-supply chain goals for upcoming products that support our supply chain decarbonization roadmaps.

For example, future products will reflect conscious choices to select less carbon-intensive suppliers for components such as integrated circuits or displays. This will confirm that a percentage of our supply chain is moving towards renewable energy and that a percentage of our suppliers are committed to setting science-based carbon reduction targets.

The Responsible Sourcing team works with other teams across the Devices organization to ensure design decisions reflect an understanding as to which suppliers are committed to helping Microsoft meet our long-term sustainability goals. We are exploring relevant data that will enable us to evaluate sourcing trade-offs. For example, as we evaluate alternative materials or make technical bets for a new product roadmap, alternatives must include an understanding of the trade-offs that may occur by selecting one supplier or facility location over another based on overall carbon impact.

Outlook 2022: Achieving a meaningful shift in supply chain emissions will only come through engagement and collaboration with suppliers.

As a technology company, we understand that proper data, tools, and finance are paramount to driving progress. In FY22, we will apply this knowledge by holding in-depth meetings with priority suppliers to explore their carbon emissions and sustainability programs. We will encourage suppliers to commit to concrete plans for substantive carbon reduction in the coming years.

Partnership and financial support will be key; some suppliers may need access to low-interest finance and education to reach their carbon reduction goals. Microsoft is committed to providing this level of supplier support.

We are also building internal support networks. Devices' upstream teams make technology and design decisions that impact the carbon intensity of the downstream supply chain. We are building internal tools to support informed decision-making and address downstream carbon impacts. This includes understanding the trade-offs between product design and material choices.

Microsoft is only part of this ecosystem and we will partner with others in our industry to standardize carbon accounting methodologies, drive sustainable component design and circularity initiatives, increase supply chain transparency, and maximize the use of technology to scale these efforts.

Sustainability moving from "good to have" to "need to have"

As we develop our long-term strategy, the way we do business is receiving increased attention from a vast array of stakeholders, including investors, NGOs, and customers. We are also seeing a clear trend towards increased regulatory oversight and disclosure, requiring sustainability to be woven into our operations, supply chains, and business practices in all geographies where we manufacture and sell our Devices.

Regulatory developments and expectations include new and emerging human rights due diligence reporting laws, such as the proposed European Union (EU) Due Diligence Act, which seeks greater transparency of corporate due diligence efforts to ensure human rights and reduce environmental impacts in corporate supply chains. We are watching this space closely to build our capabilities and increase our resilience as we work to deliver our 2030 carbon goals.

Tackling climate change (continued)

Partnering for change

Given the urgency to decarbonize the supply chain and the fact that we share much of our supply chain with other electronics manufacturers, we work to leverage collaborative opportunities that push consistent expectations across the industry. In the next year, we will increase our efforts with the Responsible Business Alliance (RBA), CDP, Science Based Target institute, RE100, and other leading organizations to support industry-wide policies, tools, and initiatives to achieve the broadest carbon reductions possible.

No voice is more important than that of our suppliers. Many are leading in this space and already have decarbonization roadmaps in place. We seek to work with and learn from our suppliers to understand best practice and collaborate on shared priorities as we move towards our 2030 goals.

"Sustainability regulation and policy in China changes rapidly, along with international trends and new technologies. We work hard to keep up with the latest information and coordinate actions with different functions, organizations, and other companies."

"I coordinate the Green Sustainability Project at a Devices supplier factory in China. Day-to-day, I am coordinating and facilitating the facility's sustainability initiatives, working with the Microsoft Factory Management team.

We work together based on the latest sustainability goals, develop action plans and follow up with implementation on the production floor.

My goal is to combine a stable income with professional growth. I am willing to devote myself to environmental conservation because sustainability is significantly affecting our daily life. I believe any contribution will make a difference and will help our environment to be better.

Through close coordination and communication with the Microsoft Factory Management team, we align sustainability strategic targets and milestones, identify gaps and opportunities for improvement, and develop action plans.

We look forward to Microsoft's sharing of the sustainability efforts of other suppliers so that we can understand trends and support each other through bench marking and sharing best practice."

Green Project Coordinator
Devices Supplier China Facility

Microsoft 2020 Environmental Sustainability Report

Please refer to the Microsoft 2020 Environmental Sustainability Report for more information on our approach and progress towards becoming carbon negative.

Download the Microsoft 2020 Environmental Sustainability Report

Managing waste

Waste prevention and recycling are crucial goals and are foundational to responsible sourcing. Incorporating recycled materials into our products and packaging conserves finite resources and reduces emissions. We set high standards for the safe management of hazardous wastes throughout our supply chain.

The waste streams generated by our supply chain include general industrial waste, recyclable waste, hazardous waste, and domestic waste. Our waste management requirements for suppliers focus on driving waste reduction and recycling and hazardous waste compliance.

Quality assurance is one of the essential building blocks of the accountability process that builds integrity into our products. Supplier performance in these areas is monitored through our social and environmental accountability audit program.

To enhance supply chain security and sustainability, we are investing in programs and processes to increase the recycling of minerals contained in discarded technology products.

Aiming for zero waste by 2030

Microsoft has committed to achieve

Zero

waste by 2030. Because measuring and improving recyclability and circularity will be essential to reach this goal, we have set recyclability targets for our products and packaging.

We are working towards

100% recyclable Surface products

100% recyclable packaging

As we further evaluate future Zero Waste opportunities for Devices, we anticipate there will be implications for our supply chain. We will work with existing suppliers to choose appropriate materials that support this goal and qualify new suppliers that commit to our net zero carbon goals. Please visit our Environmental Sustainability Report for more information.

Waste models explained

Take-make-waste model:
a traditional linear approach to using resources where raw materials are transformed into a product and, at the end of its lifecycle, the product is thrown to waste.

Circular model:
a systemic approach that is regenerative by design and seeks to prevent consumption of finite resources and creation of waste by keeping resources in use for as long as possible.

Tackling electrical and electronic equipment (EEE) waste

As one of the fastest growing waste streams in the world[2], electrical and electronic equipment (EEE) waste is one of the most critical waste challenges facing society. As a technology company, our efforts to protect the planet require that we directly address EEE waste. Microsoft has a role to play in developing the technologies and infrastructure needed to extract and reuse valuable materials from EEE waste.

Microsoft's corporate specification, Conformance Standards for Environmentally Sound Management of WEEE (H09117), provides the minimum compliance standards for environmentally sound management of EEE waste, including waste components, batteries, and residuals. It applies to all Microsoft internal business units and third-party contracted suppliers – including manufacturers, suppliers, vendors, and their subcontractors – that perform services that generate EEE waste or provide end-of-life management services. Services covered include hardware manufacturing, repair, refurbishment, parts harvesting, recycling, and disposal.

2 http://www3.weforum.org/docs/WEF_A_New_Circular_Vision_for_Electronics.pdf

Managing waste (continued)

Unlocking the value in EEE waste

EEE waste presents a huge opportunity to reduce emissions and consumption of natural resources, including the extraction of raw materials used in the production of our devices.

To enhance our supply chain security and sustainability, we are investing in programs and processes to increase the recycling of minerals contained in discarded technology products.

These include metals like aluminum, copper, gold, platinum, silver, and palladium, as well as lithium and cobalt – essential for batteries – which are projected to come into short supply in the next decade.

However, the rate of this type of recycling is low. Minerals are currently extracted through mining at a much higher rate than the rate at which they are recycled and reused. Each material differs in terms of how easy it is to recapture for reuse and how easy it is to put back into the manufacturing supply chain. It is often challenging to develop the right recapture processes and processing capability to recover materials of an acceptable purity and grade for effective reuse, and no one player can solve it alone.

Managing restricted and hazardous substances

Use of hazardous and restricted substances is controlled through our Restricted Substances for Hardware Products specification (H00594).

Find out more

Microsoft restricted substances are identified based on legal requirements, the precautionary principle, and a scientific approach. When we have concern over a chemical's potential for severe or irreversible damage to health or the environment, we believe actions should be taken to gather and assess additional data. Such investigations may lead to voluntary restrictions that go beyond legal requirements.

Packaging and hardware suppliers are required to conform to the requirements through their contracts with Microsoft to ensure products meet Microsoft and regulatory requirements regarding chemicals contained or used in the manufacture of Microsoft products, components, and packaging.

We verify supplier conformance to H00594 through a restricted substances control (RSC) audit program. This provides an opportunity to connect with suppliers to increase their control system capabilities.

The RSC audit checklist covers end-to-end incoming and outgoing processes such as supplier management, material management, manufacturing process management, traceability system, testing system, and ozone-depleting chemicals (ODCs) management. The RSC audit focuses on factories in China, where most of our suppliers are located.

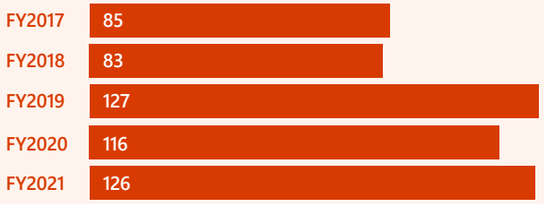
The COVID-19 situation brought some challenges to the RSC audit program, including travel restrictions and stricter measures applied by suppliers for external visitors. It was difficult to arrange supplier audits at the beginning of the fiscal year. As the situation improved and international travel became easier, we managed to speed up supplier audits in Q2.

By the end of FY21, we had conducted 126 audits, covering assembly, molding, enclosure, and electrical suppliers.

We analyze our findings monthly, communicating results to suppliers and our own management. We use the outcomes to identify training needs and additional partnering requirements.

As shown in Figure 2, Restricted substance control audits, we have conducted 537 audits over the past five fiscal years.

Figure 2:
Restricted substance control audits



537
restricted substance control audits conducted in the past five fiscal years

Reducing air emissions

Our main air quality impacts occur as a result of our supplier manufacturing operations in China, including printing, coating, and plating processes. We work closely with our suppliers to reduce the air quality impacts of manufacturing our devices and ensure compliance with evolving regulations.

Meeting high air quality standards across our supply chain is a priority to protect the environment, people's health, and our supply chain. In recent years, the Chinese government has legislated and enforced multiple air pollution prevention and control laws, regulations, and standards.

Our air quality management approach covers permitting, operational control (including source identification and characterization, treatment, monitoring), and carbon emissions. We require all our suppliers to comply with legislation on carbon emissions and air quality from countries ratifying the Kyoto Protocol, including its amendments.

Our suppliers are encouraged to reduce their use of hydrochlorofluorocarbons, hydrofluorocarbons, and other Annex-listed greenhouse gases. We strongly promote steps to reduce fluorinated greenhouse gas (F-GHG) emissions, and semiconductor and display manufacturers are requested to report F-GHG emissions.

Hardware suppliers, representing 99 percent of Microsoft's manufacturing and sourcing spend, are required to report climate change and water security to the Carbon Disclosure Project.

See page 44 for more information

Restricting ozone-depleting chemicals

We restrict the use of ozone-depleting chemicals (ODCs) in the production of our devices and packaging. We require annual declarations of compliance for taxable imported products. Compliance is verified through RSC audits. In FY20, a dashboard was created in Power BI to provide instant analysis on trends and to aid identification and return of incomplete submissions.

Replacing high-VOC materials in our product lines

Replacing high-VOC materials with low-VOC materials in our products is one of our key actions to prevent air pollution. In China, there are strict legislative controls on volatile organic compound (VOC) emissions. The Chinese government introduced four national mandatory "Guobiao standards" (GB standards) regulating VOC limits in coatings, adhesives, inks, and cleaning agents used in multiple industries, including the electrical and electronics industry. These standards came into effect in December 2020 and April 2021.

The Responsible Sourcing team has worked closely with suppliers in relevant categories such as mechanicals and enclosures, printed circuit boards, and printing suppliers to meet these requirements. This has been challenging as all Microsoft Devices products – including Surface computers, Xbox controllers, accessories, and HoloLens – are impacted by the new GB standards.

We have engaged with authorities, technical committees, and industry associations to gain insights and feedback and discuss solutions. Internally, clear and timely interpretation, analysis, and guidance has been provided to technology, sourcing, and factory management teams to take solid actions with material and contract manufacturing suppliers to reduce high-VOC content materials in our product lines.

To drive improvement and monitor compliance, the Responsible Sourcing team conducts a VOC Compliance Survey for existing suppliers. We have also incorporated a material VOC compliance check into the existing supplier SEA audit program to help ensure full compliance across management systems and daily operations.

Water stewardship

Microsoft's devices supply chain is not a heavy user of water resources but it does include some water-intensive categories, such as printed circuit boards. Our water stewardship activities focus on supporting suppliers to improve water protection and conservation.

Water stewardship ensures water is used in a way that is socially equitable, environmentally sustainable, and economically beneficial.

It is achieved through an inclusive process of water resource management that involves all stakeholders who depend on a catchment. This drives action on both a site- and catchment-level basis.[3]

Our water stewardship activities focus on driving suppliers' improvement of water protection and conservation, including drinking water quality monitoring, stormwater management, wastewater compliance, and water reduction.

Water management is critical to water conservation and specific actions are included in our supplier SEA audit program. The requirements focus on water monitoring and conservation, wastewater treatment, and pollution prevention. In FY21, we identified and took action to remediate 42 water-related non-conformances out of 242 third-party audits at supplier factories.

3 AWS International Water Stewardship Standard Version 2.0

Working with our suppliers to improve water stewardship

We use our supplier SEA program to drive and guide printed circuit board (PCB) suppliers to continuously improve water management and water efficiency. One supplier located in China's Taihu Lake basin, where very stringent water requirements are in place, has made significant water savings on-site. These savings include 14,200 metric tons of freshwater saved by adopting water-saving methods in production lines and reusing washing water to create a closed loop; exploring opportunities to collect 2,880 metric tons of condensate water from the air conditioner system to be used in the cooling tower system after treatment; and collecting 5,100 tons of rainwater to be used in production after treatment in its wastewater treatment plant. Together, these actions realized a saving of $13,500 in water costs in CY2020.

14,200
metric tons of freshwater saved

2,880
metric tons of condensate water saved from air conditioner systems

5,100
tons of rainwater use in production

$13,500
saving in water costs in CY20

Collaborating with the Alliance for Water Stewardship

In FY21, the Responsible Sourcing team launched a new Supply Chain Water Stewardship Project in collaboration with the Alliance for Water Stewardship Asia Pacific (AWS A-P). The project aims to pilot the implementation and certification of the AWS International Water Stewardship Standard with selected suppliers. We selected a supplier located in China to take part in the first pilot.

With the support of the Responsible Sourcing team and AWS A-P, the supplier established a special taskforce and benchmarked its existing water management system and performance against the AWS International Water Stewardship Standard. The supplier completed a study on catchment shared water challenges, carried out stakeholder analysis and supply chain water risk mapping to identify water-related risks and opportunities, and identified improvement actions.

As a result, the supplier has now developed its first water stewardship plan. The plan aims to strengthen internal water and environmental management capability, improve performance across water balancing, water quality and water, and sanitation and hygiene (WASH), and engage the surrounding community and its own upstream supplier. A third-party audit will be conducted at a later stage of the pilot to independently review and verify pilot outcomes.

Sourcing with respect

to enable suppliers to thrive

Overview of our approach

Our products reflect the people who made them, and we aim to build extraordinary products that empower every person and organization on the planet to achieve more.

Sourcing with respect means demanding high standards for safety and working with our suppliers to ensure all workers in our supply chain are treated with equity and dignity.

Ensuring supplier health and safety

Worker safety and human rights issues can impact our ability to deliver products with integrity. Microsoft's approach to sourcing with respect is driven by strong values, evolving regulation, and stakeholder demand for transparency. We have made significant steps to communicate our expectations and Supplier Code of Conduct in support of human rights and worker safety.

Our health and safety experts work closely with stakeholders to establish high health and safety standards. We monitor changes in international standards, local laws and regulations, and build supplier capabilities through our SEA Academy and quarterly webinar trainings.

Dedicated toolkits guide suppliers to conduct risk assessments to identify, track, and mitigate safety risks in our supply chain. We monitor performance and compliance through supplier self-reporting and third-party audits with results transparently reported through our dedicated Power BI dashboard.

See page 53

Promoting labor and human rights

We are committed to ensuring workers in our supply chain are treated with dignity and that their universal human rights are respected, as outlined by the Universal Declaration of Human Rights.

Our approach begins with the Microsoft Global Human Rights Statement, which sets out our commitment to operationalize respect for human rights in our business and technologies by conducting robust due diligence on supply chain human rights.

The Microsoft Supplier Code of Conduct, Microsoft Supplier SEA Manual, and Responsible Sourcing of Raw Materials (RSRM) Policy apply to all our suppliers. They reflect our deep commitment to ensuring workers in the supply chain are kept safe and treated with respect and dignity.

Our risk-based due diligence approach works to identify, minimize, and manage human rights risks across the supply chain. Our approach is aligned with best practice guidance, including the United Nations Guiding Principles on Human Rights and the five steps of the Organisation for Economic Co-operation and Development guidelines for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance).

We carry out in-depth human rights impact assessments to identify and prioritize risks requiring action and we actively monitor the facilities which manufacture our devices against our standards and requirements. We continue to enhance our due diligence process through supplier contracts, onboarding, training, supplier assessment and audits, corrective action and verification, and sub-tier management.

Global assurance programs provide vital insight into our suppliers' risks and performance, including those related to forced labor, working conditions, and worker safety. In China, we provide an anonymous Workers' Voice Hotline to help identify and resolve workplace concerns.

Microsoft's RSRM Policy addresses the risks inherent in raw materials extraction, harvesting, processing, refining, and transportation – including unsafe working practices and forced and child labor.

See page 56

Ensuring supplier health and safety

A safe and healthy workplace is a basic human right. We work with our suppliers to uphold the highest standards and keep their employees healthy and safe on the job.

Managing worker safety begins with identifying risks in supplier factories and designing techniques and processes to mitigate them. Our device product manufacturing processes include magnesium/aluminum processing, PCB (printed circuit board) manufacturing, spray painting and solvent printing that pose inherent health and safety risks, such as metal dust/powder explosion and fire, electrical fire, organic solvent, chemicals, and mechanical hazards.

We work with factory management to develop innovative processes and technologies for the safe production of our products. Ensuring compliance with safety regulations to protect workers and avoid disruption to operations is our starting point. Having focused heavily on supplier compliance, we are now turning our attention to finding innovative ways to build a safety culture and support safe behaviors in supplier factories through capability building and technical support. In FY21, we introduced a pre-assessment stage before onboarding high-risk suppliers to introduce the risk mitigation process at the earliest stage of our relationship.

Ensuring worker safety during the pandemic

COVID-19 posed challenges for our suppliers in China and around the world. As the pandemic developed, we monitored its impact on our business and supply chain. Protecting people, including our suppliers' workers, was our first priority. We emphasized the importance of compliance with labor and human rights laws and provided guidance and health advice to suppliers through email and webinars. Our Workers' Voice Hotline was available for workers in China to raise concerns related to COVID-19.

Monitoring safety performance

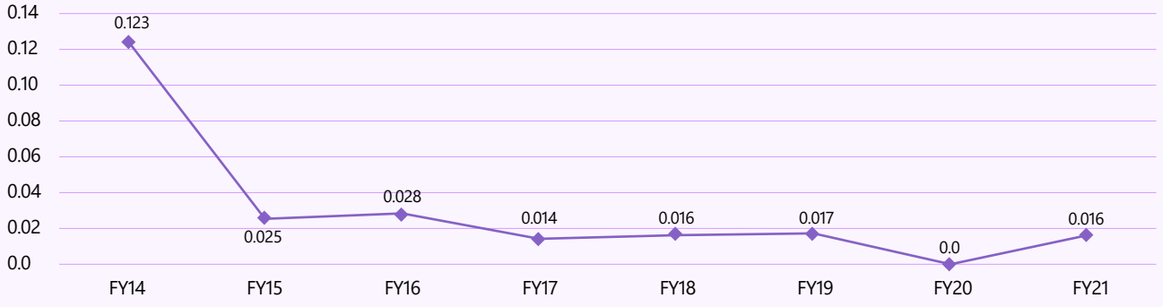
We collect data on work-related injuries and illnesses at our key Tier 1 Assembly suppliers' factories. Key Tier 1 Assembly supplier factories must record all work-related accidents, injuries, illnesses, and fatalities in line with US Occupational Safety and Health Administration (OSHA) Standards. Injuries are considered by OSHA to be work-related when an event or exposure in the work environment causes or contributes to the condition.

The OSHA recordable rate of injuries and illnesses is calculated using a precise formula: the number of injuries and illnesses multiplied by 200,000 and divided by employee hours worked. These rates help to identify problem areas and progress in preventing work-related injuries and illnesses.

Since 2014, we have encouraged key Tier 1 Assembly suppliers to report work-related injuries on a monthly basis. These records help us prevent similar events from recurring and shape best practice for other suppliers.

In FY21, our key Tier 1 Assembly suppliers reported zero fire accidents and the OSHA recordable injuries rate was 0.016 on Microsoft production lines, indicating that the risk management in our key Tier 1 Assembly supplier sites are in good control. There were zero serious safety accidents leading to shutdowns, zero fire explosion accidents, and zero business disruption accidents within the audit scope across the Devices Responsible Sourcing supply chain.

Figure 3:
OHSA recordable injury rate of key Tier 1 Assembly suppliers



Ensuring supplier health and safety (continued)

Safety management and compliance

Driving supplier safety compliance

In FY21, we supported suppliers' efforts to improve their Occupational Health and Safety (OHS) management system to minimize the causes of hazards in the working environment via the following approaches:

- We developed a Health and Safety guideline for suppliers and provided training via the SEA Academy, online webinar, and on-site trainings by our OHS experts.
- We launched specific OHS programs at high OHS risk factories, including cyanide safety handling and machine safeguarding.
- In addition to engaging third-party audit firms to identify OHS risks, our OHS experts increased efforts to deliver on-site risk assessment and mitigation at supplier factories, especially at high OHS risks factories such as magnesium/aluminum manufacturing factories, printed circuit board factories, and solvent printing factories.

Compared to FY20, the number of OHS non-conformances per factory found during annual SEA audits in FY21 decreased significantly, as follows:

Machine safeguarding NCs decreased by **17%**

High OHS risk operations decreased by **16%**

Environment, Health, and Safety (EH&S) permit NCs decreased by **11%**

Hazardous substances NCs decreased by **8%**

Non-conformances related to fire protection increased by 8 percent compared to FY20. In FY21, the industry saw several severe fire incidents. Although these did not occur at our supplier factories, we conducted in-depth research into the causes of these fires. We provided training for third-party auditors to improve their capabilities to identify fire risks. This was a key driver of the increase in fire protection non-conformances compared to FY20.

Fire safety is one of our OHS priorities. To minimize fire risks in the supply chain, we developed and rolled out fire risk mitigation programs including fire risk mitigation at PCB factories and VOCs treatment facilities. These programs are designed to help suppliers improve their capabilities to identify and mitigate fire risks.

Our safety programs continued to deliver positive outcomes in FY21 with a focus on driving risk assessment and resolving non-conformances. Examples included:

- In printed circuit board factories, our fire risk mitigation program determined 254 fire risks, with 95 percent of issues resolved by the end of FY21.
- Our metal operation safety program identified five risks related to metal dust explosion, all of which have now been closed.
- An explosive precursor chemical safety program identified 93 risks, 73 percent of which were mitigated by the end of July 2021.
- Fire risk mitigation on volatile organic compounds treatment devices identified 98 explosion related risks, of which 43 percent have now been mitigated and all remaining risks will continue to be driven to closure in FY22.
- We also maintained suppliers' focus on automation risk management to drive risk assessment and mitigation.

Reducing the risk of exposure to cyanide

Exposure to cyanide, which is used in factory manufacturing processes, creates a human health risk which can be lethal. We launched the Microsoft Supplier Cyanide Risk Assessment Project in FY19 to control and manage occupational health and safety risks associated with cyanide processes in manufacturing.

In FY20, we developed a Guideline for Cyanide Management, a self-assessment checklist, and training to help suppliers identify risks and improve cyanide risk management. We also provided training for third-party auditors to strengthen their risk identification capability in this field. In FY21, we built on this strong foundation by using our auditing program and supplier self-management system to continue to manage and improve cyanide risk management.

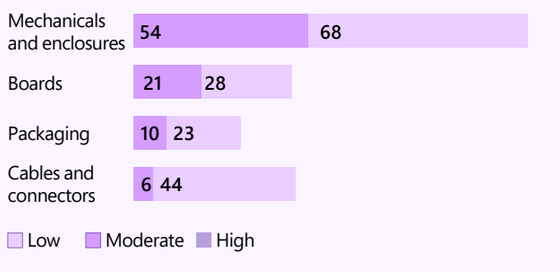
Improving chemicals risk management

In China, the government has taken steps to strengthen regulation and enforcement of precursor chemical management to reduce the risk of explosions. Serious non-compliance with these regulations can trigger a two-week shutdown of operations.

Our target is full compliance among our suppliers – both to protect workers and to ensure no disruption to operations. In FY21, we provided webinar-based training to suppliers, auditors, and our factory management team to build knowledge and capabilities. We developed a checklist for supplier factories to self-assess their on-site management of explosive precursor chemicals and worked with them to resolve non-conformances, monitoring progress through a dedicated compliance dashboard. Of 93 risks that were identified, 68 were mitigated as of July 2021.

Ensuring supplier health and safety (continued)

Figure 4:
Category Distribution of Chemical Exposure Risk



In FY20, we introduced a manual and toolkit for process chemical lifecycle management, supported by training for suppliers. We selected 17 supplier factories to test the toolkit and build their chemical risk assessment capability in FY21. The factories were chosen because they carry out activities involving high-risk chemical processes (plating, etching, printing, or painting) across four high chemical risk categories – boards, cables and connectors (C&C), packaging, and mechanicals and enclosures (M&E).

A quantitative tool was used to risk-assess all volatile chemicals used in the four processes. 254 out of 333 assessed task-chemicals found to be volatile and to present potential health impacts were selected for final risk level analysis. Due to the strong control measures at supplier sites and the relatively low volatility of most chemicals, none of these task-chemicals were identified as high-risk or very high-risk (see Figure 4).

Mitigating fire explosion risk from VOCs treatment devices

Managing VOCs emissions is important for protecting air quality and the China State Council has established wide-ranging regulations for enforcement.

A regenerative thermal oxidizer (RTO) is an effective device that uses high temperatures to combust and decompose VOCs into CO_2 and water vapor. However, there have been a number of serious fire and explosion incidents involving RTOs in China and other countries where companies have failed to either properly manage or control their processes.

To manage risks like this, we have been engaging our suppliers to complete risk assessments and address issues. Of 98 risks identified during suppliers' self-assessments, 42 have now been mitigated. The program will continue in FY22 with all identified risks bring tracked to closure by the Microsoft Responsible Sourcing and Factory Management teams.

Managing the risks of automated manufacturing

As supply chains evolve, levels of automation on our production lines will increase. Without appropriate systems in place, unsafe design and operation of automated machinery can lead to serious and fatal incidents.

In FY20, we developed the Automation Safety Risk Assessment (ASRA) guidance and checklist to support our suppliers in undertaking self-assessment and risk mitigation.

In FY21, 78 supplier factories had conducted an automation safety risk self-assessment on existing automated lines. 100 percent of factories with new automated lines for Microsoft products completed the risk assessment as part of project planning, installation, and validation.

Driving safety improvement beyond our supply chain

We pay close attention to increasingly stringent safety laws and regulations to raise supplier awareness and provide tools and processes that support compliance and catalyze change beyond our own supply chain.

We continually explore new and emerging safety risks and engage with suppliers, industry associations, and governmental experts to share best practice and support policy development.

For example, our work to develop safe processes for magnesium and aluminum scrap handling has been adopted as local government policy in China, as has our safety risk assessment process for VOCs treatment devices.

Promoting labor and human rights

Complex human rights risks exist in the tech supply chain. It's in all our interests that we build trust in technology and ensure our products empower everyone on the planet, including the workers who help make them.

Understanding the risks

Human rights violations are widespread in global supply chains and represent a material risk for companies around the world. Violations can include forced labor, child labor, safety and security, systemic racism, land rights, gender equality, and environmental impacts on health and livelihoods. Modern slavery and human trafficking are among the most severe hidden issues in global supply chains. They are caused by complex factors which require a multi-stakeholder effort to achieve meaningful changes.

The issue of forced labor has received close attention in recent years, with many countries enacting laws and regulations requiring reporting and disclosure regarding the steps companies are taking to minimize forced labor risk in their operations and supply chains. UN human rights experts have warned that the pandemic has increased the risk that people at the edges of society will be pushed into slavery, trafficking, and/or sexual exploitation.[1]

We are accountable for ensuring our suppliers manage human rights risks and act in a socially, legally, environmentally, and ethically responsible manner. Engaging with our suppliers around issues of security, sustainability, and ethics helps us understand and mitigate risk, increase transparency, build capacity, and create shared value for society.

1 https://news.un.org/en/story/2020/11/1078792

In FY21, the Responsible Sourcing team continued to map existing and newly emerging labor risks in the global supply chain, including risks associated with social benefits, working hours, wages, freedom of association, forced labor, child labor, student/juvenile workers, interns, and temporary workers and subcontractors.

Supplier risks are assessed considering the following factors:

1	Supplier inherent risk, by analyzing the factory survey covering suppliers' employment processes
2	Supplier's country risk, based on risk assessment tools and reports such as Maplecroft, Freedom House, RBA/World Justice Project, and human right indicators
3	Supplier tier
4	Supplier reputation
5	Supplier audit performance

These risks are constantly changing and we require all final assembly manufacturers to provide monthly self-reports to closely monitor compliance risk, including human rights risk. When a risk is identified, Microsoft SEA program managers work with the supplier to mitigate the risk.

Microsoft Human Rights and fair labor standards

We require that all Microsoft suppliers must without limitations...

- Not discriminate
- Use only voluntary labor
- Provide return transportation for foreign migrant workers
- Promote awareness of human trafficking
- Provide fair compensation
- Meet working hour and rest day requirements
- Provide grievance procedures
- Prohibit the use of child labor
- Ensure workers have access to work-related documents
- Use appropriately trained recruiters to support compliance
- Make conditions of employment clear when hiring
- Treat employees with dignity and respect
- Ensure freedom of association

For full details download the Microsoft Supplier Code of Conduct

Promoting labor and human rights (continued)

Maintaining high standards during the pandemic

Like many companies, we were exposed to increased supply chain risks due to COVID-19 with suppliers facing challenges related to working time control, resource planning, and other labor-related issues.

To protect workers in our supply chain, we worked proactively with our suppliers to monitor their position and performance during production recovery. We raised awareness of potential supply chain management risks, ensuring our suppliers understood our requirements and took action to protect workers' rights while maintaining business continuity.

Zero tolerance of forced and bonded labor

People should be free to choose their employment and no one should have to pay to get a job.

According to the International Labour Organization (ILO), forced labor is "all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily."

A common example is the use of large recruitment fees, which can lead workers to find themselves in situations of debt bondage, whereby a person's labor is demanded as a means of repaying the recruitment fee with little or no pay in the meantime.

We have zero tolerance of forced or bonded labor in our operations and supply chains. Since FY15, we have required our suppliers to implement a zero fees policy for worker recruitment, even if those fees are legally allowed in the supplier's operating country or the employee's country of origin.

If we discover a case of non-conformance, we require the supplier to remedy the issue and repay any fees paid by a worker to obtain a job. In FY20, we started to track the fees repaid to workers in our supply chain. As of the end of FY21, around $1.5 million in recruitment fees and insufficient payments shortfalls were repaid to over 36,000 supplier workers as a result of our intervention.

We also require suppliers to implement compliance plans for foreign migrant worker management. Actions include providing training to workers and agencies, confidential processes for reporting, procedures to monitor labor and recruitment agencies, and a robust remediation process in case forced labor is found.

Suppliers must not require workers to lodge "deposits" or surrender their identity papers as a condition of employment. All contracts must be provided in a language understood by workers.

Other requirements include ensuring workers are free to resign their employment in accordance with local and national laws and regulations, that they are allowed access to basic liberties, including being free to enter and exit facilities during working time, and provided housing during non-working time.

In FY21, we continued to enhance our due diligence process through supplier contracts, onboarding training, supplier assessment and audits, corrective action and verification, sub-tier management, and the Workers' Voice Hotline.

Supplier compliance begins with understanding our requirements. All final assembly manufacturers and strategic component manufacturers have completed online training on Microsoft's Social and Environmental Accountability requirements, including freely chosen employment requirements.

By the end of FY21, 206 suppliers had completed SEA requirement training; resulting in a 27 percent increase in knowledge according to pre-and-post training assessment.

By the end of FY21, around

$1.5m

in recruitment fees and insufficient payments was repaid to over

36,000

supplier workers

Promoting labor and human rights (continued)

Outlook 2022: Traceability is at the core of trust in our products and resilience in our supply chain.

The integrity of our products is inextricably linked to where and how raw materials are sourced, and what happens at each stage in the manufacturing processes. Trust and buy-in are key; we must ensure the information collected is robust and incentivize supply chain actors to contribute.

This level of traceability needs to be viewed holistically across the value chain to trace the provenance of raw materials and the circumstances of every addition of value along the way.

We need to compile a comprehensive digital identity for each of our products to "push" critical information down the value chain, saving downstream supply chain actors the need to actively "pull" that critical information from the source.

We are working with partners at various points of the value chain to develop solutions that give greater insight into our supply chain. This includes unlocking the potential of technology to allow stakeholders to verify the provenance of raw materials and their legal, permitting, and environmental and social characteristics.

In this way, as raw materials and the components they are used to make progress through the value chain, they not only gain value but also specific attributes such as the identities of factories and the social and environmental conditions under which they are sourced and manufactured. In future, such an approach could trace the entire process – from mineral to product and beyond.

Suppliers' compliance is verified by assessment and audit with multiple methods including factory tour, management interview, worker interview, and document review. If any non-conformance is identified, suppliers are required to conduct root cause analysis and provide corrective and preventive actions. This is followed up by corrective action audits to verify the closure of issues including recruitment fees, or insufficient fees repaid to workers. Failure to close these issues in the corrective action audits will result in factory restriction, which means no new Microsoft business will be awarded.

Eradication of forced labor risk in the supply chain relies on the commitment and collaboration of suppliers at all tiers in the supply chain. Since FY19, we have enhanced our requirements on sub-tier supplier management to cascade our policy on social and environmental accountability, including freely chosen employment, to sub-tier suppliers. Suppliers are required to establish a robust supplier management system to identify and mitigate risks, including policy communication, sub-tier risk assessment and audit, non-conformance management, and closure and auditor competency. All on-site suppliers, including labor agencies, are audited annually and any non-conformance closure must follow the requirements defined by Microsoft, including repaying recruitment fees.

Internally, our Strategic Sourcing, Factory Management, and Product Development teams received training on human trafficking and forced labor to ensure conformance requirements are incorporated into procurement decisions and to build capabilities to detect and address risks. Detailed requirements were shared to build awareness regarding the potential risks of forced labor and human trafficking in supply chains.

Supporting our suppliers to address sub-tier compliance

To mitigate supply chain risks such as human trafficking and forced labor risks among sub-tier suppliers, we enhanced requirements on sub-tier supplier management in FY19. One supplier made substantial efforts to establish the sub-tier supplier management system in FY20, supported by site visits from our team and additional capability building. In FY21, this supplier identified two forced labor non-conformances and required their sub-tier supplier to repay $216K to 104 workers.

One sub-tier supplier repaid

$216K

to 104 workers by the end of June 2021

Promoting labor and human rights (continued)

Around
80
participants across
40
suppliers completed responsible recruitment training

They rated delivery of the training at
4.6 out of **5**
and many stated that they would apply the toolkit to their recruitment process

Developing responsible recruitment practices

Forced labor risks are associated with recruitment practices, which continually change due to labor market and production needs. We expect our suppliers to embed a responsible recruitment system into their operation practices and to continually identify and mitigate any detected risks.

In FY21, we leveraged Responsible Labor Initiatives (RLI) to enhance the capability of responsible recruitment of suppliers located in high-risk countries. Practical training with toolkits were provided for these suppliers to guide suppliers to identify, assess, prevent or mitigate, track and report on risks associated with forced labor during the recruitment of migrant workers in the supply chain. Around 80 participants from 40 selected suppliers joined the training. In post-training feedback, the training delivery was rated 4.6 out of 5 by participants, of whom many reported that they would apply the toolkit in their recruitment process. In the next fiscal year, we will conduct specified audit on responsible recruitment management system to promote the good practices.

Promoting freedom of association

Freedom of association involves an individual's right to associate with any group they wish, and for the group to take collective action. As a basic human right, it is included in our Supplier Code of Conduct and SEA Manual.

We ensure these rights are respected through our due diligence processes, trainings and Workers' Voice Hotline.

If any violation is identified, the supplier is requested to correct and remediate within a certain time limit and the Responsible Sourcing team tracks progress until the issue is closed.

Audits findings in FY21

We completed 540 social and environmental accountability audits and assessments in FY21 and interviewed 4,830 workers to understand their working conditions.

Working hours, wages and benefits, and ethics and freely chosen employment were among the top non-conformances found during audits. 48 non-conformance findings related to freely chosen employment were found at 35 factories.

All these findings were managed by following Microsoft's non-conformance management process. Suppliers were required to conduct root cause analysis for each finding and develop corrective and preventive action plans to mitigate the risks. A final verification was conducted in each case to verify the resolution status: some took place on-site, while some were verified online due to pandemic restrictions.

As of the end of FY21, 100 percent of findings have been remedied.

Find out more through our Power BI dashboard

Completed
540
audits and assessments in FY21

Interviewed
4,830
workers

Promoting labor and human rights (continued)

The Workers' Voice Hotline

The Microsoft Workers' Voice Hotline provides an external channel for workers in our supply chain to report concerns anonymously and without fear of retaliation. We use anonymous feedback from workers supplied through the Hotline to improve the design of our Responsible Sourcing program. Any reported non-conformances must be remedied by the supplier.

The Workers' Voice Hotline program was made available to 333,113 workers in FY21, up 10.9 percent compared to the previous year. This was achieved by providing hotline information to 212 factories during third-party SEA audits, accounting for 99.5 percent of audited factories in China and including final assembly and strategic component manufacturing suppliers.

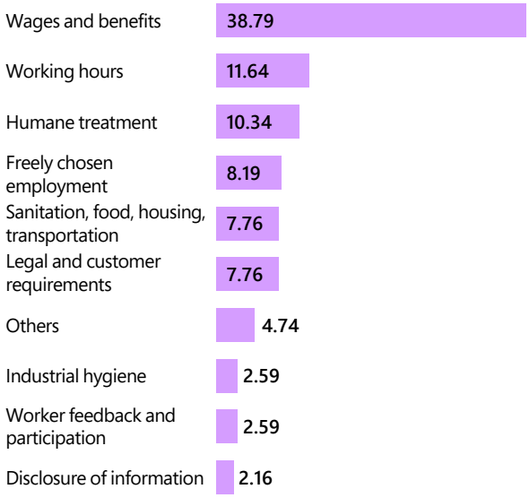
In FY21, the Hotline received 232 cases, up from 160 cases in FY20. All of the reported cases have since been investigated and resolved. The majority of cases concerned wages and benefits, working hours, humane treatment, freely chosen employment, sanitation, food, housing and transportation, legal and customer requirements, industrial hygiene, worker feedback and participation, and disclosure of information. There were two cases related to potential involuntary labor practice issues, both of which were addressed following third-party investigation and corrective actions were taken accordingly (see Figure 5).

The Responsible Sourcing team investigated all reported issues with support from third-party auditors. The investigations also identified risks and NCs that related to overtime, rest days, young workers, student workers, social insurance, and working hour records. We worked closely with the suppliers to take timely actions to correct the issues and mitigate identified risks.

To ensure continuous improvement of our processes, we carried out a survey with the Hotline operation team to collect user feedback. This provided valuable insights for future program design and feature enhancement. For example, online training was provided on "Handling Worker Feedback for Supervisors" and "Managing Worker Feedback for HR Managers" at factories that received complaint cases. This training has delivered positive outcomes, with some factories seeing a significant reduction in reported cases following training.

In FY21, operation of the Hotline was transferred to the SEA Academy, where hotline cases can be logged via an online Workers' Voice portal that provided another channel for our supply chain workers to raise their concerns. The real-time visibility of hotline cases provided to users – including workers, factory partners, and our internal stakeholders – increases transparency and efficiency for resolving workplace concerns. It also supports the ability to give factories meaningful feedback. Notably, around 50 percent of hotline-reported complaint cases in FY21 were not detected by regular SEA audits. This shows the added value of combining SEA audit and Hotline programs to monitor and manage risks in our supply chain.

Figure 5:
Top 10 Reported Case Distribution in FY21 (%)



The Workers' Voice Hotline program was made available to **333,113** workers in FY21

An increase of **10.9%** in the total number of workers that can access the Hotline compared to the previous year

The Hotline received **232** cases in FY21

Up from **160** cases in FY20

Promoting labor and human rights (continued)

> Employees can face psychological pressure as a result of social, work-related, family, or personal issues.
>
> Because it is provided by an independent third-party, the Workers' Voice Hotline provides a trusted channel for employees to register any concerns they may have. For businesses, it offers an objective view of the issues employees are facing, so they can make any changes or improvements needed to resolve them. By providing the Hotline, businesses can also show evidence of compliance with relevant regulations. Over time, the Workers' Voice Hotline helps businesses to improve their internal grievance management system so that issues raised can be resolved more quickly and effectively."
>
> CSR manager,
> Devices Supplier China Facility

Adapting to stakeholder expectations and regulatory requirements

Closely tracking evolving stakeholder expectations and regulatory trends strengthens our supply chain management. It is essential to help the Responsible Sourcing team identify any new expectation or regulatory requirement and continue to improve our programs. In FY21, we received a positive evaluation from Corporate Human Rights Benchmark (CHRB) in response to our actions to mitigate risks to workers' rights during the pandemic. The benchmark assessed 229 global companies across five sectors in the COVID-19 and Human Rights Study to supplement the 2020 assessment.

For those countries and regions that account for the majority of our supply chain, we have established labor and ethics regulation databases and conducted analyses of emerging trends. We continue to expand the scope to shape a compliant global supply chain.

Partnering for change

As well as ensuring fair labor practices in our operations and supply chains, we invest time and money in collaborative efforts with NGOs, governments, and enterprises to address the root causes of modern slavery and human trafficking globally, especially in countries with significant human rights challenges. We use what we learn from our partners and other stakeholders to challenge our thinking, develop and refine our policies and practices, mitigate risks, and improve our technologies to fulfill our commitment to human rights.

Examples include our collaborations with the RBA's Responsible Labor Initiative, Responsible Mineral Initiative, the Initiative for Responsible Mining Assurance (IRMA), and our partnerships with NGOs such as Pact and IMPACT. Our long-term partnership with Pact, an international NGO which works on-the-ground to end poverty and marginalization, aims to address the underlying socio-economic drivers that can lead to child labor in mining in the DRC. We are working closely with IRMA to leverage technology and remote sensing to enhance assurance programs throughout the pandemic and to develop e-learning resources.

For more information on these partnerships see page 21

Appendix

Contents

How we report 63

Understanding our work

How we report

We follow reporting best practices and apply industry frameworks to continually improve our reporting and transparency.

Materiality

We carried out our last materiality assessment at the Microsoft Devices level in 2018.

The supply chain-related results of this 2018 materiality assessment, along with the interests of our stakeholders, our operating context, and supply chain activities, have guided our approach to identifying the ESG issues that are included in this report.

We will update our materiality assessment at the Responsible Sourcing program level in the next fiscal year (July 2021 – June 2022) to inform our strategy, annual sustainability report, and communications going forward.

Reporting Standards

GRI:

The Global Reporting Initiative (GRI) Standards are a set of indicators covering social, economic, and environmental impacts created by experts representing business, labor, investors, NGOs, accountancy academia, among others. This report has been prepared in accordance with the GRI Core option, including relevant topic-specific disclosures at the Responsible Sourcing program level.

Download our GRI Standards Index

SDGs:

We're actively engaged in supporting the UN Sustainable Development Goals (SDGs) and publicly report how Microsoft contributes to the global effort to achieve them.

More information on this can be found here

Microsoft

Stay connected

Please get in touch if you have any questions
or comments regarding this report.

AskSEA@microsoft.com

© 2021 Microsoft. All rights reserved.