

Microsoft Corporation

Corporate Governance Guidelines

Introduction

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

The Board recognizes that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders including employees, customers, suppliers, government, and the public. The Board may refine or change these guidelines as necessary or advisable to achieve these objectives.

Board Oversight

- 1. Management Oversight.** Shareholders elect the Board to oversee management and to assure that shareholder long-term interests are served. Through oversight, review, and counsel, the Board establishes and promotes Microsoft's business and organizational objectives. The Board oversees business affairs and integrity, works with management to determine the Company's mission and long-term strategy, performs the annual Chief Executive Officer evaluation, oversees CEO succession planning, and oversees internal control over financial reporting and external audit.
- 2. Risk Oversight.** The Board oversees risk management at the Company. The Board executes its oversight responsibility directly and through its committees, who regularly report back to the Board. For information on specific areas of risk oversight, each committee has a charter describing its specific responsibilities which can be found on our website at <https://aka.ms/boardcommittees>. The Board exercises direct oversight of strategic risks to the Company and other risk areas not delegated to one of its committees.

Board Composition and Selection; Independent Directors

- 3. Board Size.** The Board size will be within the limits prescribed by the Bylaws of Microsoft Corporation, which currently provide that the Board may have no fewer than five and no more than fourteen members. Normally, the Board believes nine to fourteen members is an appropriate size based on the Company's present circumstances. The Board periodically evaluates whether a larger or smaller number of directors would be preferable.
- 4. Selection of Board Members.** The Company's shareholders elect Board members annually. The Governance and Nominating Committee recommends to the Board director candidates for nomination and election at the annual shareholders meeting or for appointment to fill vacancies. The Governance and Nominating Committee annually reviews with the Board the applicable skills and characteristics required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Nominating Committee considers the qualifications of individual director candidates in light of the Board Membership Criteria described below. The Governance and Nominating Committee may use a variety of sources, including executive search

firms and shareholder recommendations, to identify director candidates. The Governance and Nominating Committee retains any search firms and approves payment of their fees.

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

The Board and the Governance and Nominating Committee believe that all candidates should be treated equitably with respect to administrative and evidentiary requirements. Therefore, all nominees, whether proposed by the Board or recommended by shareholders, shall be subject to the same standards and informational requirements.

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

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

In evaluating the suitability of individual Board members, the Board considers many factors, including general understanding of global business, sales and marketing, finance, and other disciplines relevant to the success of a large publicly traded company; understanding of the Company's business and technology; educational and professional background; personal accomplishment; and geographic, gender, age, and ethnic diversity. Microsoft's annual proxy statement includes a table summarizing the key qualifications, expertise, and attributes currently most relevant to the decision to nominate candidates to serve on the Board. As the Board strives to maintain a diverse set of skills and attributes, it also expects that each member will be able to understand and contribute meaningfully to the oversight of the range of material business, risk, and regulatory issues the Company faces. Management's responsibility includes educating and communicating to the Board in a way that enables effective oversight of this broad set of issues. The Board is committed to actively seeking highly qualified women and individuals from minority groups to include in the pool from which Board nominees are selected.

The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the Company's business and represent shareholder interests through the exercise of sound judgment, using its diversity of experience.

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

on independence. Each independent director should notify Microsoft's Corporate Secretary of any change in circumstance that could affect their status as an independent director.

7. Term and Tenure. The Board believes that directors should not expect to be re-nominated annually. In determining whether to recommend a director for re-election, the Governance and Nominating Committee considers the director's participation in and contributions to the activities of the Board, the results of the annual Board evaluation, and past meeting attendance.

The Board does not believe in a specific limit for the overall length of time a director may serve. Directors who have served on the Board for an extended period can provide valuable insight into the operations and future of the Company based on their experience with, and understanding of, the Company's history, policies, and objectives. As an alternative to term limits, the Board will seek to maintain an average tenure of ten years or less for its independent directors.

8. Election of Directors. As provided in Article 2 of the Company's Bylaws, in an uncontested election, directors will be elected by the vote of the majority of the votes cast. In a contested election, directors will be elected by the vote of a plurality of the votes cast.

9. Retirement Policy. The Board believes that 75 is an appropriate retirement age for directors. Directors generally will not be nominated for re-election at any annual shareholders meeting following their 75th birthday.

10. Directors with Significant Job Changes. Any director who retires from their present employment, or who materially changes their position, should offer to resign from the Board. The Governance and Nominating Committee will evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of that individual's new occupational status.

11. Board Leadership. The independent directors annually appoint a Chair of the Board. The Board does not have a policy as to whether the Chair should be an independent director, an affiliated director, or a member of management. To ensure robust independent leadership on the Board, if the individual appointed as Chair is not an independent director, or when the independent directors determine that it is in the best interests of the Company, the independent directors will also annually appoint a Lead Independent Director.

The Lead Independent Director coordinates the activities of the independent directors and is authorized to call meetings of the Board and independent directors, reviews and approves Board meeting schedules and agendas, chairs executive sessions of the independent directors and leads the Board meetings when the Chair is not present, acts as liaison between the independent directors and the Chair and CEO, authorizes retention of outside counsel, advisors, or other consultants who report directly to the Board, leads the Board's annual CEO performance evaluation, coordinates Board oversight of CEO succession planning, including maintenance of an emergency succession plan, Chairs the annual shareholders meeting, represents the Board with internal and external audiences including shareholders, and performs the other duties either specified in these guidelines or assigned from time to time by the Board.

12. Other Boards and Committees. It is the expectation of the Board that every member have sufficient time to commit to preparation for attendance at Board and committee meetings. Therefore, directors should not serve on more than four public company boards (including the Company's Board),

and directors who serve as CEOs or in equivalent positions should not serve on more than two public company boards (e.g., the Company's Board and their employer's board). Generally, members of the Audit Committee may not serve on over three public company audit committees (including the Company's Audit Committee). In calculating service on a public company board or audit committee, service on a board or audit committee of a parent and its substantially owned subsidiaries counts as service on a single board or audit committee. Any Audit Committee member's service on over three public company audit committees will be subject to the Board's determination that the member is able to effectively serve on the Company's Audit Committee and the disclosure of that determination in the Company's annual proxy statement. Directors are expected to notify the Chair of the Governance and Nominating Committee before accepting membership on other boards of directors or committees thereof. The Governance and Nominating Committee and the Board will consider the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations to Company shareholders. Service on boards and/or committees of other organizations should follow the Company's conflict of interest policies.

Ethics and Business Conduct

13. Standards of Business Conduct. Microsoft's Standards of Business Conduct (our "Trust Code") are an extension of Microsoft's values and reflect the Company's continued commitment to ethical business practices and legal compliance. The Trust Code covers a wide variety of areas including conflicts of interest, insider trading, and confidentiality of information. Each director is expected to be familiar with and adhere to the Trust Code. In addition, each director is required to complete the Company's annual Standards of Business Conduct online training and an annual training offered by the Company on the prevention of sexual harassment and discrimination which may be included as part of the Standards of Business Conduct training.

14. Review of Sexual Harassment. The Board is committed to building on the steps the Company has taken to address sexual harassment complaints and strengthen Microsoft's culture. Recognizing the importance of these topics to employees, shareholders, and other stakeholders, the Compensation Committee will have oversight over the process and will review the investigative results of any sexual harassment complaints against members of the corporate Senior Leadership Team other than the CEO ("Senior Officers"). The Governance and Nominating Committee will have oversight over the process and will review the investigative results of any sexual harassment complaints against members of the Board and the CEO. The committees will report to the full Board on the conclusions of any investigation that results in a founded determination and the disciplinary and other actions taken. The Vice Chair and President will report annually to the Board on the number of Senior Officers and members of the Board that were subject to such investigation in the preceding fiscal year (either founded or unfounded).

Board Meetings; Involvement of Senior Management and Independent Advisors

15. Board Meetings – Frequency. The Board will generally hold four regularly scheduled meetings per year and holds additional meetings, as necessary. In addition, the Board generally holds regular informal meetings to review and discuss the Company's business performance. Directors are expected to attend meetings, except if unusual circumstances make attendance impractical. In addition, the Board holds regular educational meetings on Company strategy and other topics.

16. Board Meetings – Agenda and Schedule. The Chair coordinates with the Lead Independent Director, Vice Chair and President, and Corporate Secretary to set the agenda and schedule for each Board meeting, taking into account suggestions from other members of the Board.

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

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

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

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

21. Executive Sessions of Independent Directors. At each quarterly Board meeting, time is set aside for the independent directors to meet in executive session without Company management present. Additional executive sessions may be held as needed. Executive sessions are called and chaired by the Lead Independent Director. These executive session discussions may include such topics as the independent directors determine.

Communications with Shareholders

22. Engagement with Shareholders. The Company maintains an active dialogue with shareholders to ensure a diversity of perspectives are thoughtfully considered. Under the direction of the Chair or Lead Independent Director one or more directors may engage with shareholders when appropriate, in collaboration with Microsoft’s Office of the Corporate Secretary.

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

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Concerns about questionable accounting or auditing matters or possible violations of the Microsoft Standards of Business Conduct should be reported pursuant to the procedures outlined in Trust Code, which are available on the Company's website at www.microsoft.com/en-us/Investor/corporate-governance/policies.aspx

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

Performance Evaluations and Succession Planning

25. Annual CEO Evaluation. The Lead Independent Director leads the full Board in the annual CEO performance evaluation. The Compensation Committee establishes the evaluation process for reviewing the CEO's performance. The evaluation results are reviewed and discussed with the independent directors, and the results are communicated to the CEO.

26. Development and Succession Planning. A primary responsibility of the Board is planning for CEO succession and overseeing identification and development of Senior Officers.

The Board works with the CEO and the senior executive for the human resources department to plan for CEO succession. The succession plan covers identification of internal and external candidates, and development plans for internal candidates. The Board annually reviews the CEO succession plan. The criteria used to assess potential CEO candidates are formulated based on the Company's business strategies, and include strategic vision, leadership, and operational execution. The Board is committed to actively seeking highly qualified women and individuals from minority groups to include in the pool of potential CEO candidates.

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

The Board reviews the Compensation Committee's report on development and succession plans for the Senior Officers.

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

27. Board and Committee Evaluations. Each year, our Board and its committees conduct evaluations to assess their effectiveness and adherence to these guidelines and committee charters, and to identify opportunities to improve Board and committee performance.

- *Board evaluation* – The Governance and Nominating Committee conducts an annual evaluation of the performance of the Board and each of its members. The results are reported to and discussed with the Board. The report includes an assessment of the Board’s compliance with the principles in these guidelines and identifies areas in which the Board could improve its performance.
- *Committee evaluations* – Each committee conducts an annual performance evaluation and reports the results to the Board. Each committee’s report includes an assessment of the committee’s compliance with the principles in these guidelines and the committee’s charter, as well as identifying areas in which the committee could improve its performance.

Compensation

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

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

30. Derivatives Trading, Hedging, and Pledging Policy. Directors and executive officers are prohibited from trading in options, puts, calls, or other derivative instruments related to Microsoft equity or debt securities. Directors and executive officers are prohibited from purchasing Microsoft stock on margin, borrowing against Microsoft stock held in a margin account, or pledging Microsoft stock as collateral for a loan.

Committees

31. Number and Type of Committees. The Board has four standing committees – the Audit Committee, the Compensation Committee, the Environmental, Social, and Public Policy Committee, and the Governance and Nominating Committee. The Board may add new committees or remove existing committees as it deems advisable in fulfilling its responsibilities. Each committee will perform its duties as assigned by the Board in compliance with Company Bylaws and the committee’s charter.

32. Composition of Committees and Committee Chairs. The Audit, Compensation, Environmental, Social, and Public Policy, and Governance and Nominating committees consist solely of independent directors. The Board appoints committee members and committee chairs using criteria it determines to be in the best interest of the Company and its shareholders. Committee assignments are reviewed each year by the Governance and Nominating Committee. The Board considers the Governance and Nominating Committee recommendations for the periodic rotation of committee members and chairs, considering the desirability of rotation of committee members and chairs, the benefits of continuity and experience, and applicable legal, regulatory, and stock exchange listing requirements.

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

Miscellaneous

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

- *Board Orientation* – Orientation programs are designed to familiarize new directors with the Company's businesses, strategies, and policies, and to assist new directors in developing Company and industry knowledge to optimize their service on the Board.
- *Continuing Education* – Regular continuing education programs enhance the skills and knowledge directors use to perform their responsibilities. These programs may include internally developed programs, programs presented by third parties, and financial and administrative support to attend qualifying academic or other independent programs.

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

Updated July 1, 2024