

SUMMARY RESULTS OF OPERATIONS

(In millions, except percentages and per share amounts)	2024	2023	Percentage Change
Revenue	\$ 245,122	\$ 211,915	16%
Gross margin	171,008	146,052	17%
Operating income	109,433	88,523	24%
Net income	88,136	72,361	22%
Diluted earnings per share	11.80	9.68	22%
Adjusted gross margin (non-GAAP)	171,008	146,204	17%
Adjusted operating income (non-GAAP)	109,433	89,694	22%
Adjusted net income (non-GAAP)	88,136	73,307	20%
Adjusted diluted earnings per share (non-GAAP)	11.80	9.81	20%

Adjusted gross margin, operating income, net income, and diluted earnings per share (“EPS”) are non-GAAP financial measures. Prior year non-GAAP financial measures exclude the impact of a \$1.2 billion charge in the second quarter of fiscal year 2023 (“Q2 charge”), which included employee severance expenses, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. Refer to the Non-GAAP Financial Measures section below for a reconciliation of our financial results reported in accordance with GAAP to non-GAAP financial results.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

Revenue increased \$33.2 billion or 16% driven by growth across each of our segments. Intelligent Cloud revenue increased driven by Azure. Productivity and Business Processes revenue increased driven by Office 365 Commercial. More Personal Computing revenue increased driven by Gaming.

Cost of revenue increased \$8.3 billion or 13% driven by growth in Microsoft Cloud and Gaming, offset in part by a decline in Devices.

Gross margin increased \$25.0 billion or 17% driven by growth across each of our segments.

- Gross margin percentage increased slightly. Excluding the impact of the change in accounting estimate for the useful lives of our server and network equipment, gross margin percentage increased 2 points driven by improvement in More Personal Computing.
- Microsoft Cloud gross margin percentage decreased slightly to 71%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage increased slightly driven by improvements in Azure and Office 365 Commercial, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.

Operating expenses increased \$4.0 billion or 7% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering, offset in part by the prior year Q2 charge.

Operating income increased \$20.9 billion or 24% driven by growth across each of our segments.

Prior year gross margin, operating income, net income, and diluted EPS were negatively impacted by the Q2 charge, which resulted in decreases of \$152 million, \$1.2 billion, \$946 million, and \$0.13, respectively.

SEGMENT RESULTS OF OPERATIONS

(In millions, except percentages)	2024	2023	Percentage Change
<b>Revenue</b>			
Productivity and Business Processes	\$ 77,728	\$ 69,274	12%
Intelligent Cloud	105,362	87,907	20%
More Personal Computing	62,032	54,734	13%
Total	<u>\$ 245,122</u>	<u>\$ 211,915</u>	16%
<b>Operating Income</b>			
Productivity and Business Processes	\$ 40,540	\$ 34,189	19%
Intelligent Cloud	49,584	37,884	31%
More Personal Computing	19,309	16,450	17%
Total	<u>\$ 109,433</u>	<u>\$ 88,523</u>	24%

**Reportable Segments**

***Fiscal Year 2024 Compared with Fiscal Year 2023***

*Productivity and Business Processes*

Revenue increased \$8.5 billion or 12%.

- Office Commercial products and cloud services revenue increased \$5.8 billion or 14%. Office 365 Commercial revenue grew 16% with seat growth of 7%, driven by small and medium business and frontline worker offerings, as well as growth in revenue per user. Office Commercial products revenue declined 16% driven by continued customer shift to cloud offerings.
- Office Consumer products and cloud services revenue increased \$237 million or 4%. Microsoft 365 Consumer subscribers grew 10% to 82.5 million.
- LinkedIn revenue increased \$1.4 billion or 9% driven by growth across all lines of business – Talent Solutions, Premium Subscriptions, Marketing Solutions, and Sales Solutions.
- Dynamics products and cloud services revenue increased \$1.0 billion or 19% driven by Dynamics 365. Dynamics 365 revenue grew 24% driven by growth across all workloads.

Operating income increased \$6.4 billion or 19%.

- Gross margin increased \$6.5 billion or 12% driven by growth in Office 365 Commercial. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly driven by improvement in Office 365 Commercial.
- Operating expenses increased \$159 million or 1%.

*Intelligent Cloud*

Revenue increased \$17.5 billion or 20%.

- Server products and cloud services revenue increased \$17.8 billion or 22% driven by Azure and other cloud services. Azure and other cloud services revenue grew 30% driven by growth in our consumption-based services. Server products revenue increased 3% driven by continued demand for our hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments.
- Enterprise and partner services revenue decreased \$306 million or 4% driven by declines in Enterprise Support Services and Industry Solutions.

Operating income increased \$11.7 billion or 31%.

- Gross margin increased \$11.6 billion or 19% driven by growth in Azure. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly primarily driven by improvement in Azure, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.
- Operating expenses decreased slightly primarily driven by the prior year Q2 charge, offset in part by investments in Azure.

#### *More Personal Computing*

Revenue increased \$7.3 billion or 13%.

- Windows revenue increased \$1.7 billion or 8% driven by growth in Windows Commercial and Windows OEM. Windows Commercial products and cloud services revenue increased 11% driven by demand for Microsoft 365. Windows OEM revenue increased 7%.
- Gaming revenue increased \$6.0 billion or 39% driven by growth in Xbox content and services. Xbox content and services revenue increased 50% driven by 44 points of net impact from the Activision Blizzard acquisition. Xbox hardware revenue decreased 13% driven by lower volume of consoles sold.
- Search and news advertising revenue increased \$418 million or 3%. Search and news advertising revenue excluding traffic acquisition costs increased 12% driven by higher search volume.
- Devices revenue decreased \$815 million or 15%.

Operating income increased \$2.9 billion or 17%.

- Gross margin increased \$6.8 billion or 23% driven by growth in Gaming, with 10 points of net impact from the Activision Blizzard acquisition, as well as growth in Windows. Gross margin percentage increased driven by sales mix shift to higher margin businesses and improvement in Devices.
- Operating expenses increased \$3.9 billion or 31% driven by Gaming, with 34 points of growth from the Activision Blizzard acquisition.

### OPERATING EXPENSES

#### **Research and Development**

(In millions, except percentages)	2024	2023	Percentage Change
Research and development	\$ 29,510	\$ 27,195	9%
As a percent of revenue	12%	13%	(1)ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs and the amortization of purchased software code and services content.

#### ***Fiscal Year 2024 Compared with Fiscal Year 2023***

Research and development expenses increased \$2.3 billion or 9% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering.

#### **Sales and Marketing**

(In millions, except percentages)	2024	2023	Percentage Change
Sales and marketing	\$ 24,456	\$ 22,759	7%
As a percent of revenue	10%	11%	(1)ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, trade shows, seminars, and other programs.

**Fiscal Year 2024 Compared with Fiscal Year 2023**

Sales and marketing expenses increased \$1.7 billion or 7% driven by Gaming, with 6 points of growth from the Activision Blizzard acquisition.

**General and Administrative**

(In millions, except percentages)		2024		2023	Percentage Change
General and administrative	\$	7,609	\$	7,575	0%
As a percent of revenue		3%		4%	(1)ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, employee severance expense incurred as part of a corporate program, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

**Fiscal Year 2024 Compared with Fiscal Year 2023**

General and administrative expenses increased slightly as growth from the Activision Blizzard acquisition was offset in part by the prior year Q2 charge.

OTHER INCOME (EXPENSE), NET

The components of other income (expense), net were as follows:

(In millions)		2024		2023
Year Ended June 30,				
Interest and dividends income	\$	3,157	\$	2,994
Interest expense		(2,935)		(1,968)
Net recognized gains (losses) on investments		(118)		260
Net losses on derivatives		(187)		(456)
Net gains (losses) on foreign currency remeasurements		(244)		181
Other, net		(1,319)		(223)
Total	\$	(1,646)	\$	788

We use derivative instruments to manage risks related to foreign currencies, interest rates, equity prices, and credit; to enhance investment returns; and to facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedging instruments are primarily recognized in other income (expense), net.

**Fiscal Year 2024 Compared with Fiscal Year 2023**

Interest and dividends income increased due to higher yields. Interest expense increased due to the issuance of commercial paper. Net recognized losses on investments increased primarily due to higher equity impairments and lower gains on equity investments. Net losses on derivatives decreased primarily due to lower losses on equity derivatives. Other, net primarily reflects net recognized losses on equity method investments.