

FISCAL YEAR 2019

Modern Slavery and Human Trafficking Statement



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Microsoft Board of Directors approval

This Statement describes the actions taken by Microsoft Corporation and its subsidiaries during Fiscal Year 2019 (FY19) to prevent modern slavery and human trafficking in our business and supply chains. Our FY19 started on July 1, 2018 and ended on June 30, 2019. This Statement covers all Microsoft subsidiaries, including the following United Kingdom (UK) subsidiaries that are covered by the UK Modern Slavery Act:

- Microsoft Ltd
- LinkedIn Technology UK Ltd
- Microsoft Research Ltd
- MSFT MCIO Ltd

The Microsoft Board of Directors delegated authority to approve this Statement to its Regulatory and Public Policy Committee, which provided the Board's approval at its December 2, 2019 meeting.



Penny Pritzker

Chair of the Regulatory and Public Policy Committee

Microsoft Corporation Board of Directors

Microsoft structure, business, and supply chains

About Microsoft: Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more. We strive to create local opportunity, growth, and impact in every country around the world. Our platforms and tools help drive small business productivity, large business competitiveness, and public-sector efficiency. They also support new startups, improve educational and health outcomes, and empower human ingenuity. We continue to transform our business to lead in the new era of the intelligent cloud and intelligent edge. We bring technology and products together into experiences and solutions that unlock value for our customers.

Our Business: Founded in 1975, we develop and support software, services, devices, and solutions that deliver new value for customers and help people and businesses realize their full potential. We offer an array of services, including cloud-based solutions that provide customers with software, services, platforms, and content, and we provide solution support and consulting services. We also deliver relevant online advertising to a global audience. Our products include operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; and video games. We also design, manufacture, and sell devices, including personal computers, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories (referred to as “Devices” in this Statement).

Our Supply Chains: In conducting our business, Microsoft has relationships with thousands of suppliers around the globe. These relationships include, but are not limited to, suppliers that provide goods and services to our business units; suppliers that manufacture our Devices, packaging materials, and components; and suppliers that provide the servers and equipment used in Microsoft data centers.

More information about our business, organization, and operating entities can be found in our [2019 Annual Report](#).

Microsoft governance and policies that address human rights, modern slavery, and human trafficking

Governance: Microsoft established an internal Human Rights Core Group in Fiscal Year 2018 to focus on responsible sourcing issues across our business units. Core Group members include experts representing Microsoft Devices, Cloud Sourcing and Supply Chain (CSSC), Cloud Operations and Innovation (CO+I), Microsoft Procurement, Human Rights, and Corporate, External, and Legal Affairs (CELA).

The Core Group works to facilitate continuous improvement of Microsoft's human rights initiatives and policies related to responsible sourcing across the company and its global supply chains. The Core Group meets regularly to harmonize Microsoft's position on human rights issues, develop cross-company strategies, share best practices, and build company awareness around responsible sourcing issues, including modern slavery and human trafficking.

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, which is available in 12 languages and dialects, aligns with the [UN Guiding Principles on Business & Human Rights](#) and the [Global Network Initiative \(GNI\) Principles](#) and outlines our commitment and approach to respecting human rights.

The Global Human Rights Statement, first published in 2011 and most recently updated in 2016, builds upon the company's formal commitment to respect human rights and labor rights, which was established when we joined the [UN Global Compact](#) in 2006. The Microsoft Global Human Rights Statement articulates how we work to meet our responsibility to respect human rights by:

- Clearly stating our human rights policies and advancing these policies through our business operations and practices;
- Proactively engaging with stakeholders to obtain input to help evolve our approach;
- Actively participating in relevant human rights-focused collaborative initiatives, such as the [Responsible Business Alliance](#) (RBA); and

- Communicating annually on the work we are doing to meet our human rights responsibilities through our [Corporate Responsibility website](#) and other transparency vehicles.

Microsoft's Global Human Rights Statement references our respect for specific international human rights instruments, which prohibit all forms of modern slavery and human trafficking. These instruments include the [International Covenant on Civil and Political Rights](#), which prohibits slavery, forced servitude, and forced labor; and the [ILO Declaration on Fundamental Principles and Rights at Work](#), which calls for the elimination of forced or compulsory labor and child labor.

Visit the [Human Rights](#) page of our Corporate Responsibility website to learn more about how Microsoft respects and promotes human rights.

Microsoft Supplier Code of Conduct: Microsoft requires our suppliers to embrace our commitment to integrity and ethical behavior through our [Supplier Code of Conduct](#). Our Code aligns with and, in certain cases, goes beyond the [RBA Code of Conduct](#), which establishes global standards to ensure that working conditions in electronics-affiliated industries and their supply chains are safe, that workers are treated with respect and dignity, and that business operations are environmentally responsible and conducted ethically.

The Microsoft Supplier Code of Conduct, which is available in 26 languages and dialects, is our key tool for preventing modern slavery and human trafficking in our global supply chain. It is included as a standard onboarding and contractual requirement across our entire corporate supply chain.

All forms of forced labor are specifically banned by our Supplier Code of Conduct, including indentured labor, bonded labor, or any other form of forced labor, including physical confinement in the work location; exploitative practices, such as forced overtime; and lodging of deposits, including financial or personal documents for employment. Support for or engagement in any form of human trafficking or involuntary labor through threat, force, fraudulent claims, or other coercion is strictly prohibited.

In FY19, we strengthened our Supplier Code of Conduct to prohibit all forms of prison labor. We also added specific prohibitions that restrict suppliers from engaging in certain activities that may support modern slavery or human trafficking. The Code of Conduct now incorporates [US federal government procurement restrictions](#) on certain activities that have been linked to human trafficking.

The Microsoft Supplier Code of Conduct now states that all Microsoft Suppliers must, without limitation:

- **Not discriminate.** Suppliers must commit to a workforce and workplace free of harassment and unlawful discrimination. Suppliers must provide employees with procedures they can use to bring workplace concerns, including those involving harassment and discrimination, to the attention of management for appropriate resolution. Suppliers must review these reporting procedures periodically. While we recognize and respect cultural differences, Suppliers must provide equal opportunity in the workplace and not engage in discrimination in hiring, compensation, access to training, promotion, termination, and/or retirement based on race, color, sex, national origin, religion, age, disability, gender identity or expression, marital status, pregnancy, sexual orientation, political affiliation, union membership, or veteran status. Suppliers must accommodate all disabilities to the extent required by law.
- **Prohibit the use of child labor.** Child labor must not be used under any circumstance. Suppliers must not employ anyone under the age of 15, under the age for completing compulsory education, or under the legal minimum working age for employment, whichever requirement is most restrictive. Suppliers are required to have a remediation plan in place to ensure that, in the event of any child labor found, Suppliers must follow international standards, local legal requirements, or Microsoft's child labor remediation requirements. Microsoft supports all forms of legal youth employment, including the development of legitimate workplace apprenticeship programs for the educational benefit of young people. Microsoft will not do business with any Supplier that uses such programs in a fraudulent or deceptive manner. Suppliers must prohibit workers who are under the age of 18 from performing hazardous work, night work, and overtime work.
- **Use only voluntary labor.** All forms of forced labor by Suppliers are prohibited, including indentured labor, bonded labor, or any other form of forced labor. All forms of prison labor are prohibited. Support for or engagement in any form of human trafficking or involuntary labor through threat, force, fraudulent claims, or other coercion is prohibited. Suppliers must have a voluntary labor compliance plan in place that (1) provides provisions for training Supplier personnel and raising their awareness of issues related to forced labor, and (2) details what remediation the Supplier will provide in case of any violations.
- **Ensure workers have access to work-related documents.** Suppliers are prohibited from requiring workers to lodge "deposits," withholding employee identity or immigration papers (including but not limited to passports, drivers' licenses, or work permits), or destroying, concealing, confiscating, or otherwise restricting or denying workers' access to such documents. Workers must be free to resign their employment in accordance with local and national laws or regulations without unlawful penalty.
- **Provide return transportation for foreign migrant workers.** When hiring foreign workers who are not nationals of the country in which the work is taking place and who are recruited and who migrate from their home country to another country for the specific purpose of working

for the Supplier, Suppliers must provide return transportation for such workers or reimburse the workers for the cost of such trip upon the end of their employment. This requirement does not apply to workers with permanent residency of professional employees who are on short- or long-term assignments.

- **Use appropriately trained recruiters to support compliance.** Use only recruiters and recruiting companies that are trained and which comply with international standards, local labor laws of the countries in which the recruitment takes place, or Microsoft requirements, whichever are stricter. Recruitment fees or other similar fees charged to workers and payable to the employer or recruiting agent are strictly prohibited. If such fees are found to have been paid by workers, Suppliers will be required to repay such fees to the workers.
- **Promote awareness of human trafficking concerns.** Inform employees, agents, recruiters, contractors and subcontractors about Supplier's policies that prohibit human trafficking and provide training and programs to promote awareness, risk identification, employee reporting, corrective action, and potential penalties for violations.
- **Make conditions of employment clear when hiring.** Suppliers must prohibit the use of misleading or fraudulent practices during the recruitment or employment process. Suppliers must disclose, in a format and language accessible to the worker, basic information regarding the key terms and conditions of employment, including wages and fringe benefits, the location of work, living conditions, housing and associated costs (if any), any other costs to be charged to the worker, and any hazards involved in the work. Such disclosures must be made before the worker enters employment and as needed throughout their term of employment. All contracts and employee handbooks (where applicable) must (1) clearly convey the conditions of employment in a language understood by the worker, and (2) reflect applicable laws and regulations.
- **Provide fair compensation.** Suppliers must provide fair compensation for all employees and workers, including employees who are permanent, temporary or dispatched, migrant workers, apprentices, and contract workers. Such compensation must meet the legal minimum standards. Workers with disabilities whose wages are governed by section 14(c) of the Fair Labor Standards Act must receive no less than the full minimum wage rate as defined by Executive Order 13658. Suppliers may not use deductions from wages as a disciplinary measure. Any deductions from wages not provided for by national law or local law are permitted only with proof of express, written, and freely given permission of the worker concerned. All disciplinary measures must be recorded. Wages and benefits paid for a standard work week must meet local and national legal standards. Suppliers must provide benefits to employees at the levels expected in the industry and in accordance with Microsoft requirements.
- **Treat employees with dignity and respect.** Suppliers must not engage in physical abuse or discipline, the threat of physical abuse, or sexual or other harassment. Verbal abuse or other forms of intimidation are prohibited.

- **Meet working hour and rest day requirements.** Suppliers are prohibited from requiring workers to work more than the maximum hours as set by international standards, local and national laws, or Microsoft requirement, whichever is most restrictive. Suppliers must ensure overtime is voluntary and paid in accordance with local and national laws or regulations. A work week must not be more than 60 hours per week, including overtime, except in emergency or unusual situations. Workers must be allowed at least one day off per seven-day work week. Suppliers must keep employee working hour and pay records in accordance with local and national laws or regulations and provide such records to Microsoft upon request.
- **Ensure freedom of association.** Suppliers must respect workers' rights to freedom of association and collective bargaining in accordance with local legal requirements.
- **Provide grievance procedures.** Suppliers must provide procedures for employees to bring workplace concerns to the attention of management for appropriate resolution. The grievance procedures provided must be accessible, culturally appropriate, and include the option to report anonymously where appropriate. Workers and/or their representatives must be able to openly communicate and share ideas and concerns with management regarding working conditions and management practices without fear of discrimination, reprisal, intimidation, or harassment. Suppliers must periodically provide workers with information and training on all grievance procedures. All forms of retaliation against workers for bringing a workplace concern are strictly prohibited.

Our Code contains additional requirements that safeguard working conditions and prevent human trafficking in our supply chain, including in the areas of business ethics, occupational safety and health, environmental protection and intellectual property. These requirements enable Microsoft to identify and mitigate risks associated with the systemic causes of human trafficking, including, for example, corruption and generally poor working conditions.

Social and Environmental Accountability (SEA) requirements: In addition to requiring all Microsoft suppliers to meet our Supplier Code of Conduct, Microsoft also requires that suppliers of Microsoft hardware, servers, and packaging meet our Microsoft SEA requirements. These requirements, which address freely chosen employment, child labor prohibitions, worker living conditions and wages, safe working practices, responsible sourcing of raw materials, and environmental, health and safety protection, are contained in our Microsoft Supplier Social and Environmental Accountability Manual (Supplier SEA Manual). An Excerpt of the Supplier SEA Manual is available [here](#).

These SEA requirements are included as standard terms in our contracts with directly contracted hardware, server, and packaging suppliers. Microsoft also requires our suppliers to include our SEA requirements in contracts with their own upstream suppliers—those with which Microsoft does not directly engage via contract, thereby, making these SEA requirements binding on Microsoft's sub-tier suppliers.

Responsible Sourcing of Raw Materials (RSRM) Policy: Our [Microsoft Responsible Sourcing of Raw Materials \(RSRM\)](#) policy extends our Code to the furthest reaches of our Devices upstream supply chain in support of human rights, labor, health and safety, environmental protection, and business ethics. This commitment is global in scope and applies to all substances used in our Devices' hardware and packaging, unbounded by materials or geographic origin.

We provide additional details about Devices' hardware and packaging suppliers and a list of our top 100 suppliers for our commercially available Devices hardware products in the [Responsible Sourcing](#) section of our Corporate Responsibility reporting website.

Preventing modern slavery and human trafficking in Microsoft's business and supply chains

Preventing modern slavery and human trafficking in our business and supply chains requires the engagement of key business units where we have determined there is potential risk of human trafficking and forced labor. The [United States Department of Labor's 2018 List of Good Produced with Child Labor or Forced Labor](#) identified the manufacture of electronics as posing a risk for child and forced labor. Therefore, our policy and procedures to minimize the risk of modern slavery and human trafficking in our supply chains focus on those Microsoft business units associated with the manufacture of our Devices and the servers used in Microsoft data centers.

We also recognize that other businesses may also pose modern slavery and human trafficking risks. Therefore, this Statement also covers the policies and procedures used by Cloud Operations and Innovation (CO+I) and Microsoft Procurement as those Microsoft business units purchase goods and services used in Microsoft data centers and corporate operations.

The following teams have been engaged in the development of this Statement:

- The [Responsible Sourcing \(RS\) Team](#) within the Microsoft Experiences and Devices Group is responsible for SEA programs that require supplier compliance with our Supplier SEA Manual, including supply chain requirements for ethics, human rights, labor, environment, and occupational health and safety, and sustainability. The RS Team works as an integral component of the Devices' Strategic Sourcing Group, which is responsible for Devices' direct material and supply chain services sourcing. The Supplier SEA Manual is a requirement in our direct contracts with hardware and packaging suppliers for Microsoft Devices and servers used to power Microsoft global Cloud data centers and that are sourced by the Cloud Sourcing and Supply Chain (CSSC) team.
- The [Cloud Operations + Innovation \(CO+I\) Team](#) is responsible for building and operating Microsoft's global cloud infrastructure. The CO+I Team manages the entire datacenter delivery lifecycle, including supply planning, acquisition, design, construction, build-out,

operations, and decommissioning. The CO+I Governance Team manages responsible sourcing compliance and assurance responsibilities that ensure that CO+I's direct and indirect suppliers of goods and services required to design, build, lease, manage, operate, and decommission Microsoft Cloud data centers meet Microsoft requirements that minimize the risk of modern slavery and human trafficking.

- The [Responsible Sourcing Team](#) in Microsoft Procurement manages Microsoft indirect suppliers' social and environmental performance, including meeting Microsoft human rights responsibilities. This team contracts with indirect suppliers that provide Microsoft with everything from advertising services to office supplies.

Devices' Responsible Sourcing of Raw Materials program

Microsoft Devices is committed to increasing the sustainability of our upstream supply chain at its farthest reaches. In 2014, we adopted the Microsoft Responsible Sourcing of Raw Materials (RSRM) Policy to guide our programs and approaches. The RSRM policy extends the Microsoft Supplier Code of Conduct to raw materials extraction and harvesting processes in support of human rights, labor, health and safety, environmental protection, and business ethics. This policy covers all minerals and materials used in our Devices and their packaging irrespective of their country of origin.

Since adopting the RSRM Policy, the Microsoft Devices RSRM Program has evolved to encompass additional materials, processes, and partnerships. We view our work as a journey to continuously drive sustainability into every product we introduce and sell to our customers. While we continue to iterate on past success and learnings, we remain committed to a growth mindset, constantly finding ways to improve our programs and products.

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 UN Guiding Principles on Business and Human Rights. As a baseline, Microsoft has incorporated RSRM requirements aligned to the OECD Guidance in our Supplier SEA Manual.

RSRM requirements are applicable to our sourcing of all raw materials, including tin, tantalum, tungsten and gold (also called "conflict minerals" or "3TGs"), cobalt, copper, lithium, magnesium and aluminum. The requirements are publicly available in our Supplier SEA Manual Excerpt and included in our direct contracts with hardware and packaging suppliers to our Devices business. Directly contracted suppliers also commit to incorporating the RSRM requirements in their contracts with their sub-tier suppliers. Third-party audits are conducted to ensure supplier and sub-tier supplier conformance. Suppliers must correct any identified nonconformances or risk termination of the Microsoft business relationship.

Where our influence diminishes due to our inability to push our requirements directly through contract with our direct suppliers and their sub-tier suppliers, we continue to further our RSRM commitment by engaging in strategic partnerships with Non-Governmental Organizations

(NGOs) and various industry sectors. This portion of our RSRM Program is critical because Devices does not directly contract to purchase raw materials and the raw materials extraction phase poses unique human rights and modern slavery risks and challenges.

In FY19, we continued to address some of the major challenges to developing due diligence in our raw material supply chains:

- Many actors in the mineral supply chain are many tiers away from a directly contracted Microsoft supplier, posing challenges for Microsoft as our ability to take direct action to enforce our RSRM Program diminishes with sub-tier suppliers. To improve sub-tier conformance, Microsoft is working with our directly contracted suppliers to ensure that Microsoft's RSRM requirements are passed on to their sub-tier suppliers and enforced across the entire supply chain.
- Although organizations, including the [Responsible Minerals Initiative](#) (RMI) and the OECD, have developed a robust set of tools for mapping and identifying risks in the conflict minerals supply chain, these tools are nascent for other materials, including cobalt and lithium. Microsoft is investing in internal research and industry partners to identify and understand responsible sourcing risks posed by minerals beyond 3TGs.
- The chain of custody for many minerals is extremely difficult to verify when mineral exchanges are used. For example, the chain of custody is frequently lost when gold is sold to exchanges, such as the Shanghai Gold Exchange. Microsoft works to impact upstream sources of minerals regardless of whether they end up in our products. We work with industry working groups and through on-the-ground interventions and technology projects with the goal of creating impact beyond the entities that are identified in our Devices' supply chain.
- In FY19, Microsoft expanded its work with our NGO partner [Pact](#) with the goal of eradicating child labor in the mineral supply chain. Our [partnership](#) with Pact exemplifies our shared, holistic and multifaceted approach to promote safe, ethical working conditions in the farthest reaches of mineral supply chains. Pact has been working for more than 10 years in the Democratic Republic of the Congo ("DRC") to address systemic changes needed to improve the lives of artisanal miners and their families on a range of issues, including efforts to eliminate child labor from DRC mines. Positive results have included the establishment of neighborhood committees, which have identified 2,000 children working in mine sites and reached more than 5,000 key community stakeholders, families, and children through a range of activities to raise awareness about the risks of child labor in mining and to strengthen child protection norms and attitudes in the DRC.
- In FY19, Microsoft joined the [Global Battery Alliance \(GBA\)](#). The GBA works to tackle some of the most pressing social and environmental issues associated with battery manufacturing supply chains – from mining and manufacturing to recycling. This new partnership will enable us to increase our impact to promote battery sustainability through

our participation and collaboration with the larger battery industry. We will continue to work with our battery suppliers to conduct due diligence of their supply chains, with a focus on demonstrating conformance to the OECD Guidance.

Responsible sourcing programs for Devices and servers

Since 2005, the RS Team has focused on improving Devices' supplier capabilities related to ethics, human and labor rights, occupational health and safety, and the environment. In 2015, the RS Team was tasked to assess server supplier capabilities as well.

SEA Stages: We categorize all directly contracted hardware and packaging suppliers and related factories according to a three-step model of maturity called "SEA Stages." Our RS Team designs and offers capability-building programs to these suppliers and their factories according to this model of maturity.

The three stages are:

- **Compliance.** The supplier factory has not demonstrated its ability to move from reactive risk management to strong management systems. Factories at this stage tend to have repeat nonconformances (known as "Findings") identified during audits.
- **Self-management.** The supplier factory has invested in skilled SEA personnel and demonstrates the willingness to develop its SEA capabilities. The factory has management systems in place that proactively identify, control, and manage risk.
- **SEA culture.** The supplier factory demonstrates a culture of continuous improvement, which includes proactively participating in capability-building and training programs.

Microsoft's RS and Strategic Sourcing Teams support suppliers that show the willingness to build their SEA capabilities and proactively improve their management systems and SEA cultures. We provide incentives to factories that advance through the three SEA Stages, including future business awards, recognition at supplier events, and less frequent audits due to reduced risk. Factories that cannot meet baseline "Compliance" stage requirements are placed on a compliance watch list and may be restricted from receiving future Microsoft business or terminated as a Microsoft supplier.

To further embed SEA into our business processes and to continuously improve our risk assessment and management approach, in FY18, the Responsible Sourcing team aligned its strategy to our Devices product part sourcing categories for different tiers of suppliers. This allowed us to clearly identify the specific audit, environment, health and safety, labor, and RSRM risks for each category, enabling us to fine-tune our SEA engagement strategies. In FY19, we worked closely with Strategic Sourcing to clearly define goals and objectives to further drive SEA improvements based on suppliers' procurement category.

Learn more about SEA Stages results and Category Risk Profiles in our [FY19 Devices Sustainability Report](#).

Due diligence process: We enforce our Standards of Business Conduct, Microsoft Global Human Rights Statement, Supplier Code of Conduct, Supplier SEA Manual, and RSRM Program (collectively referred to as “Microsoft Standards and Requirements”) through supplier contracts, supplier assessments and audits, corrective action, and capability building and training programs. Together, these components comprise a comprehensive due diligence process that identifies, monitors, and mitigates the risk of modern slavery and human trafficking in our hardware and packaging supply chains.

Microsoft’s RS and Strategic Sourcing Teams ensure that our hardware and packaging suppliers conform to all of Microsoft’s Standards and Requirements, including those pertaining to freely chosen employment, child labor prohibitions, worker living conditions and wages, human rights, safe working practices, responsible sourcing of raw materials, and environmental, health and safety protection. All new and directly contracted Devices hardware and packaging suppliers and server suppliers undergo initial risk and capability assessments and audits to assess their conformance to Microsoft Standards and Requirements, including the Microsoft Supplier Code of Conduct and the Supplier SEA Manual, which both prohibit any form of modern slavery and human trafficking through threat, force, fraudulent claims, or other coercion. After the initial baseline assessment, Microsoft’s RS Team monitors the performance of all hardware and packaging suppliers and conducts sustaining audits based on each supplier’s risk.

We classify our hardware and packaging suppliers into tiers:

- Tier 1: Manufacturing partners, system integrators or assemblers with whom Microsoft has a direct contractual relationship to manufacture Microsoft hardware and products.
- Tier 1.5/2/3: Suppliers with whom Microsoft has a direct contractual relationship to provide consigned parts, components, sub-assemblies, or materials to our Tier 1 suppliers.

Third party auditors and the RS Team conducts these audits and assessments to verify conformance to the Microsoft Standards and Requirements, including our prohibitions on modern slavery and human trafficking. During this verification process, auditors examine

documentation, visit production lines, dorms, canteens, and waste storage facilities, and conduct face-to-face interviews with workers and factory management. Interviews of migrant workers are conducted in their native language. To ensure audit consistency and quality, Microsoft qualifies third-party auditors through shadow audits and assessments of their onsite audit performance and reports.

Download our [FY19 Devices Sustainability Report](#)
to learn more about our SEA Audit Program.

Remediation: If our audits detect nonconformances in our supply chain, our RS, Strategic Sourcing, and Manufacturing Teams work closely with nonconformant suppliers to develop corrective action plans to resolve detected issues (called “Findings”), including building needed capabilities through education and training. Suppliers are required to identify the root cause of any nonconformance, establish a corrective plan, and implement corrective actions for all detected nonconformances. Suppliers must correct issues within specific deadlines based on the severity of the non-conformance or risk termination of the Microsoft business relationship.

Findings: Microsoft classifies Findings as Critical, Serious, Major, and Minor; and the level of the Finding determines the timeframe for corrective action. Suppliers are required to correct any Critical Findings within 24 hours of identification, Serious Findings within 30 days, Major Findings within 60 days, and Minor Findings within 90 days.

In FY19, the following Audit Findings were recorded:

- 214 factories were audited in the Devices hardware and packaging supply chain with 6 Serious and 46 Major Findings identified in the Freely Chosen Employment category.
- 6 shared Devices-CSSC factories were audited with 0 Serious and 1 Major Finding identified in the Freely Chosen Employment category.
- 52 factories were audited in the CSSC server supply chain with 4 Serious and 19 Major Findings identified in the Freely Chosen Employment category.

A breakdown of the audit Findings is shown in the chart below:

Freely Chosen Employment Category	Numbers of Audit Findings			
	Devices factories (220 factories, 6 shared with CSSC)		CSSC factories (52 factories)	
	Serious	Major	Serious	Major
Policy and procedure that prohibits forced labor & human trafficking	0	3	0	6
Workers having paid recruitment or employment fees	5	23*	3	7
Retention of worker identity documents	1	2	1	0
Contractual relationship	0	14	0	4
Restriction of workers' freedom of movement	0	4	0	2
Forced overtime	0	1	0	0
TOTALS	6	47*	4	19

* Includes Finding from a shared Devices-CSSC factory

A breakdown of the investigation and remediation actions taken to address the 38 Findings of workers having paid recruitment or employment fees is as follows:

- 26 Findings: Workers paid a health exam fee as a condition of employment
- 8 Findings: Workers paid recruitment fees
 - 2 Findings were domestic workers who paid recruitment fees
 - 6 Findings were migrant workers who paid recruitment fees, of which 2 occurred in factories that are no longer in Microsoft's supply chain
- 4 Findings were other policy violations regarding recruitment fees

Findings were either successfully corrected or are being corrected through clarification of our SEA requirements. The RS Team also provided consultation support to nonconformant suppliers to strengthen their management systems to identify, prevent and mitigate future risks. For FY19, the factories that were in Microsoft's supply chain refunded 100 percent of all recruitment fees.

Read about our SEA Audit Findings in our
[FY19 Devices Sustainability Report.](#)

Giving workers a voice: The Workers' Voice Hotline Program, launched in April 2014, provides factory workers with a reliable and anonymous reporting channel managed by a neutral third-party provider. This resource enables better transparency and increased efficiency to resolve worker workplace concerns. It also complements and, in certain cases, provides the factory with meaningful feedback on where improvements are needed to meet Microsoft Standards and Requirements.

In FY19, the RS team extended the Workers' Voice Hotline Program to 153 factories, leveraging our third-party auditors and providing workers with a way to freely raise their concerns and questions to our Workers' Voice Hotline. This expansion allowed the Workers' Voice Hotline Program to reach 241,230 workers in FY19. The Hotline received a total of 152 inquiries/cases in FY19; 25 cases remain in the follow-up process stage. The majority of received inquiries concerned wage calculation, resignation, work-shift and leave or holiday arrangement, social insurance, working hours, layoffs, labor contracts, delayed payment, and management concerns.

The RS Team investigated all Hotline inquiries with support from our third-party auditors. We worked closely with the suppliers to ensure that they addressed any actionable inquiries in a timely manner and that they mitigated any identified risks. In addition, workers from our sub-tier suppliers, which do not have a direct contractual relationship with Microsoft and, therefore, are not audited, utilized the Hotline to report issues at the sub-tier factory level, further leveraging the reach of the Worker's Voice Hotline to resolve worker concerns, which may include forced labor allegations.

In FY19, the Hotline received 6 reports of possible allegations of forced labor in our supply chain. After RS Team investigation, 1 report was confirmed as a forced labor case. Since the report related to a sub-tier supplier, the RS Team worked with our direct Tier 1 supplier to correct the nonconformance and close the case.

Building supplier and Microsoft capabilities to detect modern slavery risks: In FY19, we focused on increasing our suppliers' awareness of modern slavery, forced labor and human trafficking risks. We provided in-person trainings to build supplier capabilities for recognizing, preventing, and correcting forced labor issues in our supply chain.

In January 2019, we conducted an in-person Human Trafficking and Forced Labor workshop for our suppliers in Taiwan. In March 2019, we shared our program updates and specific

requirements, including zero recruitment fees and new regulations, with additional suppliers during our Responsible Sourcing Supplier Forum in China. We also provided our third-party auditors with an annual training to help them sharpen their SEA knowledge and auditing skills. We held auditor training sessions in Shenzhen and Suzhou China in May 2019. A total of 87 third-party auditors attended these two auditor training sessions.

Internally, we continued to educate the Devices Strategic Sourcing team and other business teams on human trafficking and forced labor risk. During these trainings, detailed requirements and updates about the program were shared, building Microsoft employee awareness regarding the potential risks of forced labor and human trafficking in our supply chains. We also trained employees to detect and address such risks with the RS Team's support.

Cloud Operations + Innovation's human rights strategy

In FY19, CO+I leadership invested in the development of a human rights strategy and management reporting system to assess and address human trafficking and forced labor risk posed by our global datacenter network of supply chain providers. That strategy is based upon a robust third-party independent Human Rights Impact Assessment (HRIA), a gap analysis, and mitigation plan.

Impact assessment: CO+I's focus is to efficiently and effectively understand the universe of actual and potential human rights risks in the Microsoft Cloud infrastructure supply chain and align such risks to the UN Guiding Principles on Business and Human Rights. Using an HRIA, suppliers were evaluated and categorized based on their country, industry, and individual supplier risk level. The HRIA provided a supplier-specific risk score that measured the severity of potential human rights impacts and likelihood of an adverse human rights impact occurring at that supplier facility.

Gap analysis and mitigation plan: Taking into consideration the human rights policies and processes that Microsoft has established across the company, including the Microsoft Supplier Code of Conduct, a large portion of the gap analysis consisted of a comprehensive contractual review of CO+I suppliers that were identified by the HRIA as high-risk suppliers.

Mitigation actions are now being implemented to reduce such human rights risks in the CO+I supply chain, including the development of category specific additional due diligence documentation, contract language alignment, and review of direct suppliers' responsible sourcing policies and/or public statements.

Management reporting system: Currently and during the coming year, CO+I will implement a robust and comprehensive assurance protocol. The protocol will include a menu of engagement options based on each supplier's HRIA risk rating. The management system will assist in mitigating supply chain human rights and associated business risks; driving efficiency with adoption of a risk-based approach to engagement; and building supplier capacity.

Human rights awareness training: The CO+I Team plans to launch human rights awareness training across CO+I in 2020. The training will focus on ensuring that all CO+I employees which engage with suppliers that build, manage, or operate our Cloud infrastructure are aware and can recognize potential human rights violations or concerns in the day-to-day execution of their duties. This human rights awareness training, in addition to the implementation of CO+I's first annual assurance protocol, will support our continued responsibility and commitment to extending human rights protections to the CO+I supply chain.

Responsible sourcing across Microsoft Procurement

Microsoft's customers and investors increasingly request information about our corporate social responsibility (CSR) engagement with our indirect suppliers that provide Microsoft with everything from advertising services to office supplies. Understanding our suppliers' capacity to manage CSR issues and working with suppliers with strong sustainability performance enables Microsoft Procurement to respond to these requests, increases the resiliency of our operations, and enhances our business performance. During FY19, we established indirect supplier requirements that leverage existing reports, frameworks, disclosure tools, and assessments. Our approach is efficient and promotes convergence towards best-in-class sustainability performance.

Identification of Third Party ESG Rating Systems: Recognizing that a large proportion of a company's impacts are embedded in the supply chain, many organizations strive to source more sustainable products and services and prioritize suppliers that demonstrate enterprise-wide environmental, social, and governance (ESG) practices. Organizations that manage their indirect supply chain impacts often develop customized sustainability engagements, scorecards, surveys and audits, resulting in time-intensive, resource-intensive and often, duplicative processes. To avoid producing yet another ESG survey for our indirect supply chain, Microsoft Procurement's Responsible Sourcing program leveraged investor-driven tools designed by ESG research firms to assess hundreds of ESG topics on behalf of investors. We asked our suppliers to provide us with information from pre-existing ESG frameworks and surveys instead of creating our own ESG survey. Through this approach, we aim to reduce supplier survey fatigue, reduce the burden on procurement teams, facilitate participation, reduce risk, and ultimately improve ESG performance.

Microsoft Procurement's Responsible Sourcing Team sponsored the Committee on Supplier Ratings (COSR) to convene a multi-stakeholder group focused on strategic and sustainable procurement. The committee screened ESG research providers and methodologies to determine which assessments would be most appropriate for use in evaluating supply chains. The COSR initiative was formalized and adopted by the Sustainable Purchasing Leadership Council, which used the research to publish a free research and qualification tool for use by procurement professionals.

Implementation of ESG Rating Systems: In FY19, we required our top suppliers to provide at least one of the preferred third-party ESG ratings identified by COSR. If the supplier was unable to meet the requirement, we requested information about priority improvements areas, corrective actions, and a timeline for compliance. Areas assessed included if the supplier (1) had established a human rights policy; (2) performed a risk assessment; (3) provided training; (4) completed assurance, including auditing; (5) collaborated with NGOs; and (6) implemented a whistleblowing and remediation program. Other areas of review included overall supplier transparency as well as inclusion of information from external sources including government and NGO datasets, media, and other stakeholders.

Through this ESG rating process, the Responsible Sourcing Team asked suppliers to share identified high priority improvement areas, outline specific corrective actions being implemented, and report compliance timelines. These actions are actively being tracked to ensure improved human rights performance. More than 100 of our largest indirect suppliers either shared their ESG performance or provided a corrective action plan. Of the suppliers that shared their ESG assessment, we determined that approximately 80% of our spend is with companies ranked in the top 1/3 of their industry for ESG performance. For FY20, we plan to continue to capture suppliers' ESG performance and corrective actions plans to demonstrate continuous improvement.

Supplier Transparency: In addition to our implementation of third-party ESG rating systems, we also requested our top indirect suppliers to provide a link to their sustainability or corporate responsibility report with at least one relevant [Global Reporting Initiative](#) metric. By increasing our suppliers' reporting transparency and requiring the completion of an ESG rating assessment, Microsoft Procurement is advancing the human rights and sustainability performance of our top suppliers.

Continuous Improvement: We will continue to monitor our indirect suppliers' CSR performance, including their respect for human rights, through the use of requirements that leverage existing reports, frameworks, disclosure tools and rating systems for CSR and sustainability. We are committed to improving the human rights and sustainability of our indirect suppliers over time.

Microsoft engagements that fight modern slavery and human trafficking

We recognize that modern slavery and human trafficking are systemic issues with many complex causes. In addition to our direct efforts to prevent human trafficking in our operations and supply chains, Microsoft also participates, through the contribution of technology, funding, or volunteer service, in several broad efforts to address the root causes of modern slavery and

human trafficking. The following engagements and projects demonstrate Microsoft's active engagement in the fight against modern slavery and human trafficking:

- PhotoDNA: Developed in 2009 with Dartmouth College to help the National Center of Missing and Exploited Children (NCMEC), [Microsoft PhotoDNA](#) is a free service which helps to identify and remove online child abuse material. Hundreds of organizations and technology companies around the world are using PhotoDNA either directly through our cloud service, or indirectly through integrations with the 3rd party tools they use to perform their jobs" to reduce child exploitation by detecting illegal images by identifying the unique "hash" values of images and matching that value with a database of known illegal content.
- Industry memberships: Microsoft is a longstanding member of various multi-stakeholder initiatives aimed at combatting human trafficking. For example, Microsoft is a member of the Business for Social Responsibility, (BSR)'s [Global Impact Sourcing Coalition](#) (GISC) which is a business-led collaborative initiative to build more inclusive global supply chains through advancing wide-scale adoption of impact sourcing. We work with GISC to promote inclusive hiring practices with our suppliers.
- Microsoft is also a founding member of [Technology Against Trafficking](#), which is a collaborative effort of global companies, civil society organizations, academics, technologies, and survivors, all operating with the shared goal of preventing, disrupting, and reducing human trafficking while increasing survivors' access to resources.
- Additionally, Microsoft is also a member of BSR's [Global Business Coalition against Human Trafficking](#) (GBCAT) which is a business-led collaborative initiative working to eliminate human trafficking in global business operations, with a focus on survivor empowerment and employment; small and medium sized enterprise capacity building; and providing resources and guidance.
- Microsoft technology grants are now helping [Project VIC](#) to identify and rescue children from sexual exploitation, including but not limited to children who are being trafficked for sex. The self-stated goal of Project VIC is to "create an ecosystem of information and data sharing between domestic and international law enforcement agencies all working on crimes facilitated against children and the sexual exploitation of children." Project VIC allows agencies to leverage aggregate data, technologies, and innovation. Microsoft is proud to supply this organization with foundational technology components including PhotoDNA as well as cloud and AI elements provided by Microsoft Azure.
- Global Emancipation Network (GEN) is an organization that is using computer vision, text analytics, and other AI services to identify trafficking patterns and trends across illicit content sources around the world. Its flagship product 'Minerva' performs data analysis to look for signals indicating possible human trafficking. [Microsoft supplies GEN with technology](#)

resources as well as volunteers with cloud and AI expertise to help them accomplish their mission with greater scale and intelligence.

- Through collaboration with the Technology Against Trafficking industry coalition, Microsoft is helping to drive an 'accelerator' project with the [Counter Trafficking Data Collaborative \(CDTC\)](#). This project was launched at a two-day event in London in July of 2019, with an expected duration of 6 months. The Microsoft team is leading a workstream to build a privacy-preserving data analytics platform using Azure and Power BI. The goal is to enable the sharing and analysis of synthetic data on identified victims of trafficking that closely approximates but does not disclose the underlying sensitive data. The current CTDC data platform is hosted by the UN International Organization for Migration (IOM), and integrates data provided by the IOM as well as other organizations that fight human trafficking.
- Child Finder Service: Thorn and Microsoft have been working together for several years now to fight child exploitation and human trafficking. In addition to sharing PhotoDNA technology with Thorn, Microsoft has provided technology and volunteers in support of a project originally called 'Child Finder Service'; this project emerged from [hackathons initiated in 2015 and 2016](#), and culminated in the donation of technology to Thorn for inclusion within their Spotlight product. These innovations have since been evolved and augmented by other technologies and organizations to help find missing children faster.
- With Microsoft's help in the form of donations, technology, and expertise, Seattle Against Slavery has built a platform that addresses both the supply and demand of sex trafficking through technology, human outreach, and broad scale education. It uses Microsoft Azure and Microsoft Cognitive Services to power a software-as-service (SaaS) platform known as [Freedom Signal](#) (formerly Project Intercept). This platform is used by nonprofits, social services organizations, and other government agencies, primarily in North America. Freedom Signal amplifies the efficiency of service provider organizations reaching out to victims with critical services, while on the demand side, it proactively intercepts sex buyers with education and deterrence messages, in some cases generating law enforcement tips.
- [ID2020](#) represents a consortium of private sector and nonprofit partners looking to explore the development and deployment of digital identities to the 1.1 billion people in the world who still lack the ability to verify themselves. Microsoft and Accenture are founding partners of this initiative. ID2020 provides grants and a monitoring and evaluation framework for digital identification pilot deployments by a range of organizations around the world. For example, [iRespond](#) is an organization that is creating biometric tracking solutions that will enable a ubiquitous, verifiable identity that can be used to disrupt human trafficking and prevent humanitarian incidents.
- The [Missing Children Society of Canada](#) has been working with Microsoft to enhance its ability to rapidly find missing children using a combination of [mobile and social tactics](#).

- [Missing Children Europe](#) has been using Microsoft Dynamics to run its operations to locate missing children across more than 30 countries in the EU. Microsoft is supportive of this important work and proud to be providing the cloud technology needed to power this effort.
- Volunteers from Microsoft's Core Services Engineering team have teamed up with the International Committee of the Red Cross (ICRC) to develop ICRC's [Trace-The-Face](#) system. This allows photos of children to be matched to their families based on familial resemblances. This solution was built using open source libraries and was deployed in November 2019. The technical approach is described in more detail [here](#).

Our ongoing commitment

Microsoft remains committed to our responsibility to respect human rights across our operations and to minimize the risk of modern slavery and human trafficking in our business and supply chains.

- We will continue to build Microsoft's supplier engagement on topics related to slavery and human trafficking and forced labor through supplier forums, webinars, trainings, and resources for internal and external stakeholders.
- We will further our engagement with relevant industry groups and external stakeholders to define and improve industry best practices and build supplier awareness of forced labor, modern slavery, and human trafficking risks and actions they can take to minimize such risks.
- We will promote collaboration, information sharing, and benchmarking across Microsoft to ensure that human rights risks are assessed in a complimentary and consistent manner and to mitigate the risk of modern slavery and human trafficking in our business and supply chains.
- We will continue to develop technology and contribute to technical and philanthropic efforts to address the root causes of modern slavery and human trafficking.

We acknowledge that our efforts will require ongoing, proactive and multi stakeholder efforts. We invite all readers of this Statement to engage with us in dialogue to help drive improvements in our implementation and performance. For more information on our efforts, please visit www.microsoft.com/csr.