



VIA EMAIL gwong@osc.ny.gov

September 4, 2018

George Wong
ESG Integration Manager
New York State Common Retirement Fund

Re: Shareholder proposal on executive compensation

Dear George:

This letter relates to the shareholder proposal (the "Proposal") submitted by the New York State Common Retirement Fund (the "Proponent") for the Microsoft Corporation 2018 annual shareholders meeting. The purpose of this letter is to document that the Proponent has agreed to withdraw the Proposal in return for Microsoft agreeing to take the following actions:

1. Microsoft will include in its 2018 Proxy Statement language in all material respects as reflected in Exhibit A which, among other things, describes how Microsoft designs its compensation programs to motivate its entire workforce.
2. Microsoft Corporation agrees to participate in a call or in person meeting with the Proponent, no later than February 28, 2019 to discuss Microsoft Corporation's compensation programs.

The Proponent agrees to withdraw the Proposal upon the execution of this letter by Microsoft and the Proponent.

Sincerely,

Peter A. Kraus
Assistant General Counsel

The Proponent consents to the foregoing

By: _____
George Wong
ESG Integration Manager

EXHIBIT A

Excerpts from Proxy Section 1, Corporate Governance:

Spotlight: Oversight of Human Capital Management

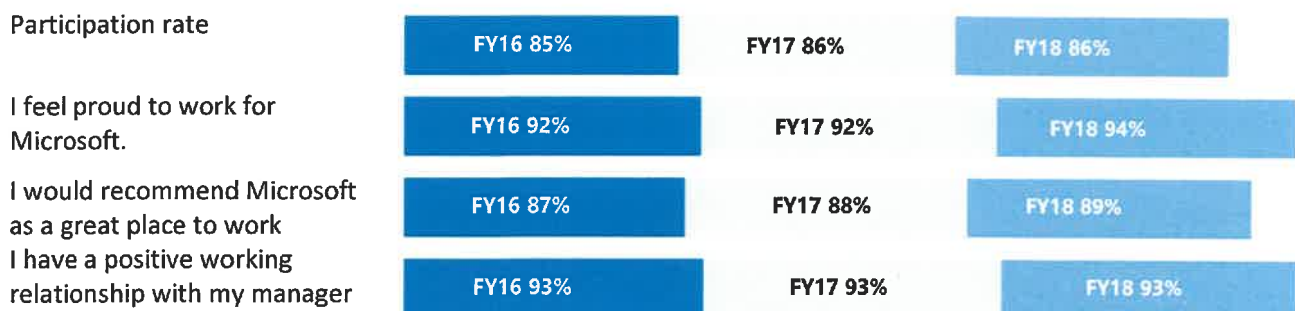
Microsoft is focused on creating a respectful, rewarding, diverse, and inclusive work environment that inspires our employees to create products and services that empower others to achieve more – and that allows our people to build meaningful careers. Key to this environment is cultivating a growth mindset, where our workforce is focused on learning and listening and growing. The success of these human capital management objectives is essential to the fulfillment of Microsoft’s mission. The Board and the Compensation Committee engage with the Senior Leadership team and human resource executives on a regular basis across a broad range of human capital management issues including culture, succession planning and development, compensation, benefits, employee recruiting and retention, and diversity and inclusion. Employee feedback is considered in designing talent programs, rewards, benefits, and building the overall employee experience. Additionally, each year, the Compensation and Audit Committees evaluate management’s annual assessment of risk related to our compensation policies and practices. The Compensation Committee also oversees our sales incentive programs through engagement with management’s Sales Incentive Compensation Governance Committee. The Board and Compensation Committee work with the CEO and our Head of Human Resources to review CEO and senior executive succession plans, considering the qualifications and experience of potential leadership candidates.

* * *

Culture and human capital

At Microsoft, we strive to create a respectful, rewarding, diverse, and inclusive work environment that enables our employees to create products and services that help others to achieve more. Our leadership is focused on bringing out the best in people, supporting their goals, and allowing them to find deep meaning in their work.

The vast majority of our global employees participate in an annual anonymous poll; here is a selection of results:



Excerpt from Proxy Section 3, Named Executive Officer Compensation/Compensation discussion and analysis:

Competitive pay

We compete with global information technology and large market capitalization U.S. companies and smaller, high-growth technology businesses for senior executive talent. The technology labor market is hyper-competitive with demand growing faster than the supply of technical talent, resulting in significant increases in compensation at the companies with whom we compete for this talent. The same conditions exist in the market for executive level talent that can provide innovative leadership while managing at a global scale across several complex businesses. We expect these trends to continue and we expect to continue to adjust our approach to executive compensation to respond to market conditions.

To ensure that our Board of Directors and Compensation Committee have current information to set appropriate compensation levels, we conduct an executive compensation market analysis each year that draws from third-party compensation surveys and publicly available data for a group of peer companies. We supplement this analysis with additional market information specific to each executive officer's role and responsibilities, including information gleaned from our experience recruiting for executive positions at Microsoft. Because other companies actively recruit our executive officers to fill CEO and other senior leadership positions, we supplement market information with data on external opportunities potentially available to our executive officers. We also consider the relationship of annual target compensation among internal peers. In addition, the Committee is provided with an overview of compensation for our non-executive Microsoft employees, and how this compensation relates to Mr. Nadella's.

While this market analysis and supplemental data inform the decisions of the independent Board members and the Compensation Committee on the range of compensation opportunities, we do not tie executive officer compensation to specific market percentiles. In determining target pay, base salaries and incentive opportunities may be set below or above median amounts because of factors like expertise, performance, and potential for future contributions.