



ADDENDUM TO WRITTEN TESTIMONY

To: Members, Homeland Security Committee
Re: Full Committee Hearing at 1:15pm on Thursday, June 13, 2024

Microsoft Board of Directors Compensation Announcement/Details:

As I stated in the written testimony I submitted yesterday, Microsoft's Board of Directors was scheduled to meet today. I'm submitting this addendum to provide you with an update on the changes the Board discussed and approved today relating to security accountability and compensation for the company's next fiscal year, which begins on July 1. These changes were made to ensure that all Microsoft employees, and particularly our senior leaders, are held even more accountable for the company's security commitments as part of our review and compensation processes.

At today's meeting, the Board approved a recommendation from the Compensation Committee to change the criteria that will be used for the award of annual individual bonuses for the top Microsoft executives on our Senior Leadership Team (SLT). Beginning with the start of the company's new fiscal year on July 1, one-third of the individual performance element for each SLT member's bonus will be based exclusively on the Committee's assessment of the executive's individual performance relating to cybersecurity.

This assessment will be based on quantitative metrics and qualitative assessments relating to the implementation of the CSRB's recommendations, additional objectives in the company's Secure Future Initiative, and other aspects of the executive's cybersecurity work and performance. Microsoft CEO Satya Nadella and the Board Committee will receive input directly from a third party that will provide an additional and independent assessment of the company's progress in these areas.

The Board also decided that for the current fiscal year, which ends on June 30, the Compensation Committee will consider explicitly each SLT member's cybersecurity performance when it makes its annual assessment of the executive's performance. Beyond the design changes to our executive pay program to include a greater accountability for cybersecurity, the Board also has the ability to exercise downward discretion on compensation outcomes as it deems appropriate.

In addition, the company will make security a mandatory part of the bi-annual reviews for all Microsoft employees. These involve what the company internally refers to as "Connect" meetings and reviews that all employees have with their manager. Beginning with the new fiscal year, these assessments will include a new "core priority" relating to cybersecurity, so that all employees will identify and discuss the work they do relating to cybersecurity with their manager. With this change, cybersecurity will be considered in every employee's annual bonus and compensation.

These changes are being made in addition to the company's updating of the ongoing mandatory security training that is in place for all Microsoft employees to reflect recent lessons learned and the steps being taken as part of the Secure Future Initiative.

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I will be happy to answer any questions about any of this when the hearing takes place tomorrow.

Brad Smith