



**Microsoft Regional Sales Corporation
Australian Packaging Covenant Action Plan
for July 2015 - June 2020**

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Executive Summary

Microsoft Corporation (Microsoft) committed to continual improvement of environmentally sound packaging by signing the Australia Packaging Covenant (APC) on March 25, 2009. We continued our commitment to the updated Australia Packaging Covenant (APC) by signing and submitting the APC Declaration form in August, 2010. Microsoft has since expanded the APC to all global packaging programs.

Through our declaration, we endorsed the Environmental Code of Practice for Packaging that concides with our corporate principles. Microsoft views our APC Action Plan as a living document that will evolve and change as our packaging products achieve greater sustainability and reach goals annually. Through our annual APC report, we will be transparent about both our successes and failures as strive for measurable improvements over time..

Microsoft believes that technology can empower people and organizations on the planet to achieve a more sustainable future. We're using the power of our technology to minimize the environmental impact of our business operations and our products. And we're working with our partners around the world to discover and implement innovative ways to transition to a sustainable, low-carbon future of our planet.

At Microsoft we think every device should be made with the environment in mind. All devices we produce fulfill our strict criteria and are at a minimum compliant with all legal requirements. In pursuit of sustainability, we are committed to minimizing impacts that our operations and product life cycles may have on the environment and communities.

We also restrict the use and content of toxic substances in the manufacture and packaging of our hardware and software products. Recognizing that our direct actions are only part of the process, Microsoft requires that our global manufacturing partners and vendors follow sound environmental practices with respect to their facilities and the products they manufacture for us.

Our supply chain sustainability efforts are shaped and guided by the objective recommendations and standards published by leading international organizations and experts.

We continuously improve the environmental credentials of all our products. But it doesn't stop there. We also:

- improve energy efficiency
- use renewable materials and smart packaging
- increase the sustainability of our supply chain to its furthest reaches including responsible sourcing
- close the lifecycle loop through effective end-of-life practices that put energy and valuable materials back into circulation

Additionally, we have regularly introduced new, more sustainable materials such as bio plastics, bio paints, recycled metals and recycled plastics in our devices. We have reduced content inside the packaging and empty space, which has allowed us to minimize and optimize our packaging.

Microsoft Profile

Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more. Our strategy is to build best-in-class platforms and productivity services for a mobile-first, cloud-first world.

Founded in 1975, we operate worldwide and have offices in more than 100 countries. We develop, license, and support a wide range of software products, services, and devices that deliver new opportunities, greater convenience, and enhanced value to people's lives. We offer an array of services, including cloud-based services, to consumers and businesses. We design, manufacture, and sell devices that integrate with

our cloud-based services, and we deliver relevant online advertising to a global audience.

Our products include operating systems for computing devices, servers, phones, and other intelligent devices; server applications for distributed computing environments; cross-device productivity applications; business solution applications; desktop and server management tools; software development tools; video games; and online advertising. We also design and sell hardware including PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories. We offer cloud-based solutions that provide customers with software, services, platforms, and content. We also provide consulting and product and solution support services, and we train and certify computer system integrators and developers.

As of June 30, 2015, we employed approximately 118,000 people on a full-time basis, 60,000 in the United States and 58,000 internationally. Of the total employed people, 39,000 were in product research and development, 29,000 in sales and marketing, 32,000 in product support and consulting services, 8,000 in manufacturing and distribution, and 10,000 in general and administration. We develop most of our products and services internally through three engineering groups.

The Applications and Services Engineering Group focuses on broad applications and services core technologies in productivity, communication, education, search, and other information categories.

The Cloud and Enterprise Engineering Group focuses on development of our cloud infrastructure, server, database, customer relationship management (CRM), enterprise resource planning (ERP), management, development tools, and other business process applications and services for enterprises.

The Windows and Devices Engineering Group focuses on our Windows platform across devices of all types, hardware development of our devices—including Xbox consoles, Surface devices, Lumia phones, non-Lumia phones, Surface Hub, Microsoft Band, and other hardware products and accessories— and associated online marketplaces.

Microsoft in Australia

Established in 1985, Microsoft Australia is the Australian subsidiary of Microsoft Corp., the worldwide leader in software, services, devices and solutions that help people and businesses realize their full potential.

Headquartered in Sydney, Microsoft Australia has seven regional offices across the country. Woven throughout daily life, whether it be work or play, Microsoft technologies enable millions of Australian partners and customers to innovate in new ways.

Microsoft has been committed to supporting the local Australian community for 30 years through the strength of our relationships with governments, non-profits and business partners. Each year in Australia, Microsoft donates more than \$50m of software to non-profit organizations, to help them to be more productive, more collaborative, to drive deeper relationships with their supporters and deliver more innovative solutions to the communities they serve.

Microsoft Regional Sales Corporation (MRSC) operations in Australia include an outsourced national distribution warehouse in Sydney, Australia. MRSC sells its brand finished products by shipping to the Sydney warehouse and selling the products to its authorized distributor(s). Microsoft also sells its brand products via its own Microsoft Store in Australia. The products include but not limited to XBOX game console, Surface tablet, Surface Accessories, personal computing hardware such as mice, keyboards, games and software.

Microsoft Mobile Australia Pty Ltd is another subsidiary in Australia that manages mobile phone products in Australia. Microsoft Mobile Australia Pty Ltd annual APC report will be combined into one single APC report under Microsoft Regional Sales Corporation (MRSC) since the global packaging team in Microsoft manages all products' packaging portfolios and share the same packaging strategies.

Management System for Environmental Sustainability

Our operating model for sustainability follows the ISO management system approach, including ISO's requirement for continual improvement. ISO 14001 is an internationally recognized framework that establishes a process for entities to manage and continuously improve their environmental performance.

The Microsoft Environmental Management System (EMS) covers our hardware and packaging Manufacturing and Supply Chain is ISO 14001 certified. Our certificate covers all owned manufacturing sites and significant operating locations. Microsoft also requires a certified EMS of contract manufacturers and suppliers of critical components. The Microsoft Environmental Management System consists of:

- identifying environmental aspects, and evaluating their significance
- establishing objectives and programs for achieving environmental targets
- maintaining compliance with legal and other regulatory requirements
- driving audits, management reviews, and continuous improvement
- analyzing data and processes for management of energy and water consumption, waste, etc.

The goal of the EMS is to reduce our most significant environmental impacts:

- energy consumption of Microsoft Supply Chain office buildings and factories
- air emissions related to both transporting goods to market as well as employee travel
- hardware disposal at end of useful life
- product packaging materials
- generation of nonhazardous waste (paper, recyclables, compostables)

Microsoft strives for leadership through programs that surpass compliance to promote sustainable business operations. By integrating sound environmental practices into all aspects of our business, Microsoft provides products that empower people to do more and achieve more while promoting our natural world.

Global Packaging at Microsoft

The people, organizations, and planet we empower inspire innovation from start to finish. That's why Microsoft is reducing our environmental footprint through sustainable packaging, scientific design, and industry partnerships. The "One Microsoft" initiative harmonizes packaging designs to achieve, in part, a reduced environmental impact. The overall environmental goal is to reduce impact across product lines, as measured by our product environmental scorecard metrics. Simplification of the package designs includes ensuring that packaging comprises a "paper first" design principle to encourage recycling and reduce litter.

Better productivity, better planet

We develop efficient and environmentally-friendly packaging by implementing end-to-end (i-E2E) program management. This robust data platform champions complete product development visibility, Microsoft environmental guidelines, and beautiful design.

Microsoft sustainable packaging design principles are to:

- Eliminate environmentally unfavorable materials
- Minimize packaging weight and materials
- Increase use of recycled content
- Design for end-of-life recycling materials, separable components, and clear material markings
- Increase use of bio-based and other sustainable materials

- Reduce logistics and packaging manufacturing footprint
- Source raw materials responsibly
- Evaluate product platforms' overall environmental impact through lifecycle analysis

Sustainable success

As part of the last APC action plan, we designed easy-to-separate components, decreased our use of plastic packaging materials, and reduced non-recyclable consumer packaging materials.

On average, 70% of the paperboard we use contains recycled content and plastics make up less than 4% of total packaging materials.

Do more with less

Microsoft's "paper-first" design principles empower our mobile-first, cloud-first world, reduce or eliminate our use of plastics, increase sustainable sourcing, optimize packaging size and weight, and to encourage recycling. In 2015, we grew paper-first design principles which includes using less paper and reducing package documentation like user manuals, and providing more online resources than ever before.

Climate change is no match for creative collaboration

Environmental packaging is more than a supply chain—for Microsoft, it's a value chain that respects our customers and our climate. In 2015, we developed sustainability scorecards using earlier package versions and previous reporting periods to benchmark, understand, and improve every new design. That same year, we launched an engineering and design partnership to develop new packaging standards. Through this "One Microsoft" initiative, we are harmonizing packaging designs to reduce environmental impact across product lines by at least 7% on our scorecard.

Tools

Microsoft incorporates COMPASS into design review measures. COMPASS (Comparative Packaging Assessment) is a cloud based software application for packaging designers and

engineers to assess the human and environmental impacts of their package design using Life Cycle Analysis (LCA).

Mobile goes green

Microsoft Mobile division keeps environmental innovation moving. Over the last year, our mobile packaging was over 95% fiber based, out of which more than 78% was recycled, and remaining virgin fibers were all certified from sustainable sources. Plastic materials comprise less than 3% of mobile packaging, and all Microsoft Mobile packaging is 100% recyclable.

This is just the beginning

Microsoft is looking for new ways to integrate sustainability into our packaging to offer the most powerful protection with the least environmental impact. We continue to research and improve our emphasis on recycled and certified-virgin fibers, move manual content online, and build projects of passion like lightweight rigid-board packaging. Learn more about our commitment to sustainability at [Microsoft Environment](#) and [Microsoft Citizenship Report website](#).

Summary

The following Action Plan table summarizes the initiatives and KPIs Microsoft will employ over the next 5 years to demonstrate incremental improvements in the environmental factors of Microsoft brand packaging. This Action Plan covers July 2015 through June 2020. Microsoft will submit an annual report on or before March 31st to document improvements in the KPIs.

Microsoft views this Action Plan as a living document that will evolve and change as our packaging products improve and reach goals annually. We will also introduce innovations to our packaging design. Microsoft will continue to conduct annual survey to gain baseline information of our supplier manufacturing processes, including more precise % recycling content of materials.

FY 16- FY20 Microsoft Regional Sales Corporation APC Action Plan

Performance goals and KPIs	Actions	Responsibility	Baseline data	Targets	Milestones
<i>1. Design - optimise packaging to achieve resource efficiency and reduce environmental impact</i>					
<p>KPI 1 – Proportion of signatories in the supply chain implementing the SPG for design or procurement of packaging.</p> <p>Target: 70% of Covenant signatories with documented policies and procedures for evaluating and procuring packaging using the SPG or equivalent</p>	<p>Extend the development and implementation of the Microsoft ie2e program management process tool for packaging development. Integration of environmental reviews of packaging development to coincide with verification that package design guidelines of SPG and the <i>Microsoft Environmental Packaging Design Guidebook</i>.</p> <p>Tracking of packaging program management reviews of sustainability measures at each of four development stage executive reviews. Include environmental scoring steps using the Microsoft environmental score card.</p>	Global Packaging Manager for Sustainability	<p>Microsoft has initiated in 2016 the ie2e process tool integration with our product program management. Expect completion by end of 2016 calendar year.</p> <p>For sustaining programs (“existing packaging”), Microsoft is incorporating design reviews and score card measures for environmental impact.</p>	<p>1. Maintain 100% assessment rate for new package designs. Evaluations to be conducted using the Microsoft environmental impact scorecard. Package design scores compared using established benchmark products.</p> <p>2. For existing packaging, beginning in 2016, measure 100% sustaining package design improvements using the same methodology as new package designs.</p>	<p>1. End of each Microsoft fiscal year (June) for 2016-2020.</p> <p>2. End of each Microsoft fiscal year (June) for 2016-2020.</p>
<p>Target: 70% of Covenant signatories assessing 100% of new packaging and 50% of existing packaging against the guidelines</p>	<p><i>Microsoft Environmental Packaging Design Guidebook</i> updates to include a direct reference link to the APC SPG packaging assessment template and resources.</p> <p>For packaging development programs, include reviews of sustainability measures at each of the four development stages. Include environmental scoring</p>	Global Packaging Sustainability Manager	<p>Microsoft Environmental Packaging Design Guidebook references the APC SPG guidance for packaging development and materials procurement requirements.</p> <p>ie2e program sustainability</p>	<p>3. Bi-annual updates for design methods and regulatory requirements in the <i>Microsoft Environmental Packaging Design Guidebook</i> to include SPG links.</p> <p>4. ie2e to provide 100% consistency of how package designs are evaluated for environmental impact.</p>	<p>3. Q2 and Q4 bi-annual updates in 2016 – 2020.</p> <p>4. Ongoing for 2016 – 2020.</p>

	<p>steps using the Microsoft environmental score card.</p> <p>As part of packaging design assessments, use Microsoft's ie2e program management tool to track key environmental reviews and scoring.</p>		<p>assessments include aspects of SPG evaluation criteria categories.</p>		
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Performance goals and KPIs	Actions	Responsibility	Baseline data	Targets	Milestones
<i>2. Recycling - the efficient collection and recycling of packaging</i>					
KPI 3 – Proportion of signatories with on-site recovery systems for recycling used packaging	Microsoft will ensure its suppliers' warehouse (DTV that dedicated to Microsoft products) management practices include review and identify opportunities for recycling improvement	Global Logistics Team		1. 100% of the transport packaging or any packaging from loose load breakdown are recycled.	1. 2016-2020
KPI 4 – Proportion of signatories with a policy to buy products made from recycled packaging. All APC signatories will have a formal, documented policy of buying recycled	<p>Update Microsoft specification for packaging procurement, <i>S002689 Environmental Requirements for Packaging</i>, to include new 2020 goal targets for recycled content from supplier raw materials sources.</p> <p>Conduct packaging supplier survey to assess understanding and compliance to S002689 and component engineering environmental specifications. Incorporate supplier assessment as part of supplier development and supplier performance evaluations.</p> <p>Conduct packaging raw materials source review with Microsoft Social and Environmental Assurance (SEA)</p>	Global Packaging Sustainability Manager and Sourcing Managers	<p>Microsoft specification S002689 that contains current materials recycled content requirements.</p> <p>2015 survey results as baseline for measuring supplier sustainability management knowledge and practices.</p>	<p>1. Annual update of <i>S002689 Environmental Requirements for Packaging</i></p> <p>2. Measurable improvement of supplier performance for environmental compliance for packaging.</p> <p>3. 100% supplier management methods of assurance that packaging materials sources are compliant and managed</p>	<p>1. 2016 through 2020</p> <p>2. 2016 through 2020</p> <p>3. 2016 through 2020</p>

products or materials	<p>team to validate that packaging raw materials sources comply with S002689 requirements and 2020 goals.</p> <p>Conduct bi-annual supplier performance reviews as to capabilities and methods for managing materials and processes for environmental sustainability.</p>		Existing SEA product materials audit process.	with sustainable methods and practices.	
Performance goals and KPIs	Actions	Responsibility	Baseline data	Targets	Milestones

3. Product Stewardship - demonstrated commitment to product stewardship

<p>KPI 6 – Proportion of signatories that have formal processes for working with others to improve design and recycling of packaging</p> <p>Target: 70% of Covenant signatories implementing formal policies and procedures in working with others to improve design, procurement and recovery of packaging</p>	<p>Collaborate with our supply base to increase the recycled content of paper/paperboard materials.</p> <p>Research with our supply base to maintain current level of recycled content in plastic packaging while extending this goal to include flexible plastic packaging and use plastics that are bio based alternatives to fossil fuel based plastics.</p> <p>Collaboration between Design, Marketing, and Engineering to reduce product to package size ratio and reduce package weight.</p> <p>As part of our ISO14001 working group actions, measure GHG (CO2 emissions) of our supplier processes and include in the packaging scorecard.</p> <p>Through engineering and product testing, replace polystyrene foam as a cushioning material for protecting products in distribution.</p> <p>Review with supply base and eliminate (where used) the use of elemental chlorine in paper bleaching process.</p> <p>Coordination with distribution and logistics to evaluate environmental</p>	<p>Global Packaging Sustainability Manager and Packaging Managers</p>	<p>Recycled content for paperboard, on average, is 70%.</p> <p>Recycled content of rigid plastic packaging is 25%.</p> <p>Not currently using bio-based plastic materials.</p> <p>Current package to product to package size ratio is 29% on average across all product lines.</p> <p>Currently we conduct pallet and container loading dimensional efficiency analyses.</p>	<p>1. Lower environmental impact by increasing recycled content of paper from 70% to 90% average by volume.</p> <p>2. Reduce reliance on fossil fuels based materials by maintaining a minimum 25% recycled content for all plastics.</p> <p>3. Plan for 20% of plastics to be bio based alternatives.</p> <p>4. Extend recycled content/bio based target to include our flexible plastic packaging.</p> <p>5. Reduce product to package size ratio to 50% on average across product lines.</p> <p>6. Reduce package weight by > 10% on average across product lines.</p>	<p>1. 2018</p> <p>2. 2016</p> <p>3. 2020</p> <p>4. 2018</p> <p>5. 2020</p> <p>6. 2020</p>
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	<p>impacts of transporting packaging through reductions in packaging weight and dimensions.</p>				
<p>KPI 7 – Proportion of signatories demonstrating other product stewardship outcomes</p>	<p>ISO14001 to coordinate sustainability of packaging development with Microsoft comprehensive sustainable supply chain and facilities management.</p> <p>Review Microsoft corporate programs for carbon offsets in applying to packaging programs. Identify opportunities for achieving net zero de-forestation.</p> <p>Review opportunities to source certified paper for virgin materials performance requirements. Certified paper as an alternative to increase in recycled content.</p> <p>Participation in the Sustainable Packaging Coalition (SPC) to collaborate on sustainable management practices in packaging development and supply chain processes.</p>	<p>Global Packaging Sustainability Manager</p>	<p>ISO14001 2016 targets.</p> <p>None currently.</p> <p>Evaluate the environmental impact of certified materials.</p> <p>2016 SPC meeting participation rate < 50%.</p>	<p>1. Quarterly review and updates of ISO14001 targets for 2017.</p> <p>2. Identify in H2 of 2017 applicable carbon offset programs.</p> <p>3. In 2016 define strategy for certified paper and strategic programs opportunities.</p> <p>4. Increase frequency of SPC meeting attendance to 75%.</p>	<p>1. 2017 through 2020</p> <p>2. 2017</p> <p>3. 2016-2020</p> <p>4. 2016-2020</p>

Performance goals and KPIs	Actions	Responsibility	Baseline data	Targets	Milestones
<i>3. Product Stewardship - demonstrated commitment to product stewardship</i>					
KPI 8 – Reduction in the number of packaging items in litter	<p>Review the number of design packaging components as part of packaging design reviews. Include in scorecard evaluation.</p> <p>In user experience testing of package designs include the ease of different package component separation via consumer disassembly of the package.</p> <p>To facilitate sorting and recycling, update information in the <i>Microsoft Environmental Packaging Design Guidebook</i> regarding the appropriate markings for packaging components.</p> <p>Include environmental markings as part of the packaging development design reviews between design, engineering, marketing, branding, and regulatory compliance teams.</p> <p>Include component material type recyclability scoring as part of package design score cards. Rank different packaging component materials according to availability and efficiency of global recyclability.</p>	Global Packaging Sustainability Manager and Packaging Managers	<p>Current practice to include user experience data as part of package design development reviews.</p> <p>Material markings requirements are included in the <i>Microsoft Environmental Packaging Design Guidebook</i>.</p> <p>Ease of recyclability scoring implemented in 2016.</p>	<p>1. 10% reduction in the number of packaging components, on average across product lines.</p> <p>2. 100% of designs are reviewed and scored on the basis of materials recyclability by use of the environmental score card.</p> <p>3. 20% improvement in design recyclability score, on average across product lines.</p> <p>4. Bi-annual updates for materials marking requirements in the <i>Microsoft Environmental Packaging Design Guidebook</i>.</p>	<p>1. 2018 through 2020</p> <p>2. 2016 through 2020</p> <p>3. 2017 through 2020</p> <p>4. 2016 through 2020</p>