

consistent with our internal management reporting. All differences between our internal management reporting basis and accounting principles generally accepted in the United States of America ("GAAP"), along with certain corporate-level and other activity, are included in Corporate and Other.

Additional information on our reportable segments is contained in Note 20 – Segment Information and Geographic Data of the Notes to Financial Statements.

SUMMARY RESULTS OF OPERATIONS

(In millions, except percentages and per share amounts)	2019	2018	2017	Percentage Change 2019 Versus 2018	Percentage Change 2018 Versus 2017
Revenue	\$ 125,843	\$ 110,360	\$ 96,571	14%	14%
Gross margin	82,933	72,007	62,310	15%	16%
Operating income	42,959	35,058	29,025	23%	21%
Net income	39,240	16,571	25,489	137%	(35)%
Diluted earnings per share	5.06	2.13	3.25	138%	(34)%
Non-GAAP operating income	42,959	35,058	29,331	23%	20%
Non-GAAP net income	36,830	30,267	25,732	22%	18%
Non-GAAP diluted earnings per share	4.75	3.88	3.29	22%	18%

Non-GAAP operating income, net income, and diluted earnings per share ("EPS") exclude the net tax impact of transfer of intangible properties, the net tax impact of the TCJA, and restructuring expenses. 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 2019 Compared with Fiscal Year 2018

Revenue increased \$15.5 billion or 14%, driven by growth across each of our segments. Intelligent Cloud revenue increased, driven by server products and cloud services. Productivity and Business Processes revenue increased, driven by Office and LinkedIn. More Personal Computing revenue increased, driven by Surface, Gaming, and Windows.

Gross margin increased \$10.9 billion or 15%, driven by growth across each of our segments. Gross margin percentage increased slightly, due to gross margin percentage improvement across each of our segments and favorable segment sales mix. Gross margin included a 5 percentage point improvement in commercial cloud, primarily from Azure.

Operating income increased \$7.9 billion or 23%, driven by growth across each of our segments.

Key changes in expenses were:

- Cost of revenue increased \$4.6 billion or 12%, driven by growth in commercial cloud, Surface, and Gaming.
- Research and development expenses increased \$2.2 billion or 15%, driven by investments in cloud and artificial intelligence ("AI") engineering, Gaming, LinkedIn, and GitHub.
- Sales and marketing expenses increased \$744 million or 4%, driven by investments in commercial sales capacity, LinkedIn, and GitHub, offset in part by a decrease in marketing. Sales and marketing expenses included a favorable foreign currency impact of 2%.

Current year net income included a \$2.6 billion net income tax benefit related to intangible property transfers and a \$157 million net charge related to the enactment of the TCJA, which together resulted in an increase to net income and diluted EPS of \$2.4 billion and \$0.31, respectively. Prior year net income and diluted EPS were negatively impacted by the net charge related to the enactment of the TCJA, which resulted in a decrease to net income and diluted EPS of \$13.7 billion and \$1.75, respectively.

Fiscal Year 2018 Compared with Fiscal Year 2017

Revenue increased \$13.8 billion or 14%, driven by growth across each of our segments. Productivity and Business Processes revenue increased, driven by LinkedIn and higher revenue from Office. Intelligent Cloud revenue increased, primarily due to higher revenue from server products and cloud services. More Personal Computing revenue increased, driven by higher revenue from Gaming, Windows, Search advertising, and Surface, offset in part by lower revenue from Phone.

Gross margin increased \$9.7 billion or 16%, due to growth across each of our segments. Gross margin percentage increased slightly, driven by favorable segment sales mix and gross margin percentage improvement in More Personal Computing. Gross margin included a 7 percentage point improvement in commercial cloud, primarily from Azure.

Operating income increased \$6.0 billion or 21%, driven by growth across each of our segments. LinkedIn operating loss increased \$63 million to \$987 million, including \$1.5 billion of amortization of intangible assets. Operating income included a favorable foreign currency impact of 2%.

Key changes in expenses were:

- Cost of revenue increased \$4.1 billion or 12%, mainly due to growth in our commercial cloud, Gaming, LinkedIn, and Search advertising, offset in part by a reduction in Phone cost of revenue.
- Sales and marketing expenses increased \$2.0 billion or 13%, primarily due to LinkedIn expenses and investments in commercial sales capacity, offset in part by a decrease in Windows marketing expenses.
- Research and development expenses increased \$1.7 billion or 13%, primarily due to investments in cloud engineering and LinkedIn expenses.
- General and administrative expenses increased \$273 million or 6%, primarily due to LinkedIn expenses.

Fiscal year 2018 net income and diluted EPS were negatively impacted by the net charge related to the enactment of the TCJA, which resulted in a decrease to net income and diluted earnings per share of \$13.7 billion and \$1.75, respectively. Fiscal year 2017 operating income, net income, and diluted EPS were negatively impacted by restructuring expenses, which resulted in a decrease to operating income, net income, and diluted EPS of \$306 million, \$243 million, and \$0.04, respectively.

SEGMENT RESULTS OF OPERATIONS

(In millions, except percentages)	2019	2018	2017	Percentage Change 2019 Versus 2018	Percentage Change 2018 Versus 2017
Revenue					
Productivity and Business Processes	\$ 41,160	\$ 35,865	\$ 29,870	15%	20%
Intelligent Cloud	38,985	32,219	27,407	21%	18%
More Personal Computing	45,698	42,276	39,294	8%	8%
Total	<u>\$ 125,843</u>	<u>\$ 110,360</u>	<u>\$ 96,571</u>	14%	14%
Operating Income (Loss)					
Productivity and Business Processes	\$ 16,219	\$ 12,924	\$ 11,389	25%	13%
Intelligent Cloud	13,920	11,524	9,127	21%	26%
More Personal Computing	12,820	10,610	8,815	21%	20%
Corporate and Other	0	0	(306)	*	*
Total	<u>\$ 42,959</u>	<u>\$ 35,058</u>	<u>\$ 29,025</u>	23%	21%

* Not meaningful.