

ACTIONS SPEAK LOUDER THAN WORDS

INNOVATE. ACT. SHARE.

SUN'S 2006 CORPORATE SOCIAL RESPONSIBILITY REPORT





EVERY DAY

the network changes the lives of those who touch it — and we are committed to making that access affordable, durable, and sustainable.

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Letter from Jonathan Schwartz, President and Chief Executive Officer

Being headquartered in California's Silicon Valley, surrounded by thousands of startups, I can attest to a company's ability to change the lives of its employees as well as the communities in which it operates. Companies create professional and financial opportunities, develop leaders, broaden horizons, and even fund family educations.

A far smaller number of companies have the capacity to change the lives of their customers, through products or services that enable innovation, create opportunity, or connect people. A company that invests in and supports the customers, employees, and partners it serves doesn't just have customers, it has loyalists and evangelists.

A tiny fraction of companies in the global economy have the ability to transform their employees and customers while also benefiting the environment in which they operate. Companies with products and technologies that change the course of education, healthcare, politics, commerce, or even global warming. These are the companies that have the greatest opportunity of all — and the greatest responsibility.

I firmly believe that Sun Microsystems is one of these companies. A company with a history of innovation and creativity that every day changes society. A company that leads not only with our minds, but also through our actions.

As a technology pioneer and leader, as well as a public company, we drive value for all our constituents, whether it's shareholders, Ministries of Education, supply chain managers, developers, or CIOs. But we are not only responsible for delivering growth to our shareholders, we are also responsible for doing so in a way that is consistent with Sun's values

of integrity, transparency, and fairness. The entire Sun community — from our employees to our partners, from our customers to the communities where we live and work — has come to expect it of us.

To me, that is the meaning of corporate social responsibility, and that is why Sun is dedicated to the health and well-being of our employees, our customers, our communities, and our planet.

Sun was founded on the ideals of openness and sharing, and today, in our 25th year, we remain committed to those ideals. In the following pages, you will read about our efforts to increase innovation, lead by our actions, and share technology to drive economic and social progress worldwide. You will also read about some specific commitments we have made that will enable us to continuously improve our social and environmental performance throughout the value chain, and that will enable you, our stakeholders, to hold us accountable. Why?

Because being a responsible corporate leader is all about creating value. For shareholders, employees, customers, and the communities in which we operate.

Jonathan Schwartz



President and Chief Executive Officer
Sun Microsystems, Inc.
blogs.sun.com/jonathan



TRANSLATING A VISION INTO REALITY

Sun was founded 25 years ago with one driving goal of connecting everyone and everything through technology innovation and sharing. It was a vision of inclusion, simply expressed as The Network is the Computer™. But also a vision that was profound, and that today is more true than ever before.

Throughout the years, Sun has pioneered ideas such as open standards, interoperability, and open communities for technology, and has consistently broken through the barriers of conventional thinking to deliver innovative technologies. We share our ideas, expertise, and technology in order to eliminate obstacles to access and participation, and enable people everywhere to interact and share.

Today, we continue to lead in the new age of participation on the network — where the focus is on people. People networked and connected, interacting, participating, and sharing. Because the true power of the network is in sharing ideas and technologies to drive innovation and create new opportunities — both social and economic. Sun is 100% committed to helping make participation on the network a reality for everyone around the world.

SOCIAL RESPONSIBILITY AT SUN

Sun's corporate social responsibility strategy can be defined in three words: Innovate, Act, and Share. Through our strength in product innovation, our goal is to bring more responsible products and services to market. We strive to act in a way that promotes responsible company operations, for example, by maintaining the highest level of transparency in our business practices. And through our philosophy of open sourcing, we share our ideas, technologies, and expertise through our people, products, and know-how. At Sun, we believe that aligning our corporate social responsibility mission with our business goals is not only crucial to maintaining our company's success today and sustaining it for the future, it is also paramount to helping communities and the environment thrive.

Sun's Corporate Social Responsibility Report provides a look at Sun and our corporate social responsibility efforts to date. Our goal is to continue to make major investments in our corporate social responsibility site to deliver information as it becomes available and enable visitors to gain better insight into how Sun is performing in its corporate social responsibilities. We invite you to view this information at sun.com/aboutsun/csr.

In the Fall of 2007, we plan to publish our fiscal year 2007 Corporate Social Responsibility Report so that we align our corporate responsibility reporting with our financial reporting, which covers the fiscal year ending June 30. We will continue to publish our CSR Report annually, according to this schedule, and will update our Web site on an ongoing basis throughout the year.



SUN'S CORPORATE SOCIAL RESPONSIBILITY REPORT

Throughout our 25-year history, Sun has worked diligently in the area of corporate social responsibility, implementing programs and practices that reflect our commitment to conducting business responsibly. From the open standards, open source philosophy that our business was founded on to our introduction of an eco responsible server line, Sun has continually strived to meet our responsibilities to our customers, stakeholders, and the global community.

This report examines and demonstrates the ways in which Sun has been addressing our corporate social responsibility over the past two decades. For example:

- Sun has developed world-class innovations that not only meet our customers' stringent computing needs, but also create tangible societal benefits by working to significantly reduce energy consumption. We intend to continue to innovate in this area and stay in touch with the changing needs of our customers.
- We have created groundbreaking assistive technologies that enable people with disabilities to become integrated players in the Participation Age — and we've shared them for free.
- Sun's corporate practices and processes have helped to limit our company's carbon emissions and set the course for us to make further reductions in the future.
- Our corporate governance protocols have brought the company recognition, especially for our transparency and ethics.

- Our employees have contributed their personal time and money to support communities in need around the world. We will continue to foster a corporate environment that inspires our employees' participation in their communities.
- Through Sun's Open Work program, we are realizing positive environmental benefits by providing the technology that gives our employees the flexibility to work from anywhere at any time.

While we recognize our company's tradition of corporate social responsibility, we also recognize that there is room for improvement — from how we innovate to the ways in which we act and share.

Throughout this report, we convey Sun's commitment to advance corporate social responsibility, set meaningful goals, and establish effective and accurate tracking mechanisms in order to measure our performance over time. We believe that participating with communities on a local and global level is both critical and measurable. And we do this under the watchful eyes of our key stakeholders — our employees, shareholders, customers, partners, and suppliers — who we expect will hold us accountable.

We invite you to share your feedback on Sun's efforts. In addition, we ask you to let us know how you and your organization are using technology, which may even be Sun technology, to advance your corporate social responsibility efforts. You can share your comments and questions with us at csr@sun.com.

COMPANY PROFILE

Sun Microsystems is a global supplier of network computing solutions and conducts business in 100 countries around the world. We deliver industry-leading technologies that focus on the whole system — where computers, software, storage, and services combine. Our products power virtually everything from mobile phones and smart cards to supercomputers and the Internet.

Sun designs and builds solutions that address our customers' greatest, most critical computing problems. With our significant investments in research and development, as well as some of the world's best and brightest people, we have consistently delivered innovative and groundbreaking technologies. From originally including networking capabilities in every system we created through delivering a standalone datacenter in an ordinary shipping container today, Sun's drive to innovate has been at the core of our business from the very beginning.

Through it all, we share our solutions in order to grow communities, increase participation, and create world-changing new market opportunities. Simply put, we develop some of the world's best infrastructure technology, based on more than two decades of network computing experience.

Sun's 2006 fiscal year began July 1, 2005 and ended June 30, 2006. With revenues of \$13.068 billion in fiscal 2006, Sun is ranked 211 on the 2006 Fortune 500.

Sun believes that revolutionary opportunities come from the meeting of many minds.

Employees

At Sun, we consider our employees, representing many perspectives, to be our most valuable asset — from their innovation and vision in the technology product realm to their contributions of time, resources, and expertise, not only in the communities in which we operate, but also in the communities in which they live. At the close of fiscal year 2006, Sun had approximately 38,000 employees globally.

Products and Services

Sun builds innovative network computing solutions that enable participation on the network. By offering a systemic approach, where systems, software, storage, and services combine to deliver even greater value, we provide customers with a complete, end-to-end IT infrastructure. Sun supports customers who want both value-added innovation and low barriers to entry and exit for their entire enterprise.

Global Footprint

Sun conducts business in 100 countries and has research and development (R&D) centers worldwide.

Open Communities

Sun believes that revolutionary opportunities come from the meeting of many minds. To that end, Sun drives and participates in a variety of industry communities to help create advances and grow participation in open computing.

BigAdmin™ Portal — bigadmin.sun.com

Java™ Technology Communities

- **Developers** — java.sun.com
- **GlassFish™ Project** — glassfish.dev.java.net
- **Java Community Playground** — java.net
- **Java Community Process™** — jcp.org
- **OpenJDK Project** — openjdk.dev.java.net
- **Open Source Java Project** — sun.com/opensource/java
- **Partners** — sun.java.net
- **Technology** — sun.com/java

NetBeans™ Community — netbeans.org

OpenOffice.org Project — openoffice.org

OpenSolaris™ Project — opensolaris.org

OpenSPARC™ Initiative — opensparc.net

Sun™ Developer Network — developers.sun.com

MAP OF WORLDWIDE OPERATIONS



Note: Dots may represent multiple sites.



<innovate>

INNOVATING SUSTAINABLE COMPUTING SOLUTIONS

Sun leads with innovation. Our ability to innovate is what sets us apart from our competitors. We believe that we can do it better — no matter what it is. And when it comes to putting our resources to work on behalf of the community and the environment, innovation is exactly how we do it. In fiscal year 2006, Sun spent more than \$2 billion in R&D alone.

Innovate.

Several years ago, Sun took note of two emerging trends:

- Companies are replacing their existing servers with newer ones that provide additional compute power — but also use more energy.
- To grow their datacenters, IT organizations are adding additional systems for more resources, capacity, and compute power. However, adding more systems requires more power, which increases energy costs.

Today, the energy needed to power a company's entire IT infrastructure accounts for an estimated 25% of its total IT budget. And some analysts predict that ultimately it will cost more to power this infrastructure than it did to purchase it.

There are environmental consequences as well. An increase in energy use can lead to an increase in the greenhouse gas emissions that contribute to climate change.

Other environmental consequences associated with computing equipment stem from the manufacturing process, materials used in products, packaging of products, and the disposal of equipment at the end of its useful life.

Sun is fully committed to innovating computing solutions that are best in class and better for the environment. In other words, we are committed to sustainable computing. In 2005, we formalized this approach under the banner of our Eco Responsibility Initiative.

In this section, we describe the steps Sun is taking to innovate and advance a model of sustainable computing. Specific topics include:

- Sun's Eco Responsibility Initiative
- Our Process: From Design Through End of Life
- Taking Responsibility for Product End of Life
- Developing a Packaging Strategy for the Future
- Developing Sustainable IT Solutions

SUN'S ECO RESPONSIBILITY INITIATIVE

Long before we called it “eco responsibility,” Sun was working to minimize the impact our products and suppliers have on the environment. We increased our investment in research and development, focusing our energies on producing high-performance, environmentally sound computing solutions. The result: we are bringing to market a range of computing solutions, like our eco responsible line of servers, that deliver new levels in power efficiency and performance. And with our UltraSPARC® T1, the first multithreaded processor designed for eco responsibility, we set new standards for efficiency in power, cooling, and real estate. Beyond Sun's product innovations, our eco responsibility also extends to our internal environmental practices (which we address in the following section of this report).

As part of our Eco Responsibility Initiative, Sun established specific product-related goals that we are working to achieve over the next several years.

- By 2008, Sun intends to introduce several new products that offer 30 times more performance while using one-tenth the energy and generating half the heat compared to products offered in 2003.
- Building on Sun's existing global take-back and recycling programs, which have resulted in 18 million pounds of computer equipment being recycled over the past six years, we plan to further strengthen these programs. We are committed to our goal of having less than 5% of our products end up in a waste stream, despite our expectations that as more people gain access to technology, the amount of electronic waste will continue to increase.

- We will implement a thin-client IT architecture — where processing takes place on the network — in all Sun facilities to significantly reduce both power and materials consumption.

To help reinforce and drive our Eco Responsibility Initiative, Sun created a new executive-level position — Vice President of Eco Responsibility. In addition to improving existing products and developing new ones that are environmentally responsible, this new position also oversees and drives Sun's internal eco responsibility practices.

OUR PROCESS: FROM DESIGN THROUGH END OF LIFE

We believe that for a product to be eco responsible, it must be designed from the beginning with the environment in mind. This approach not only delivers environmental benefits, it also offers potential cost savings throughout the product lifecycle.

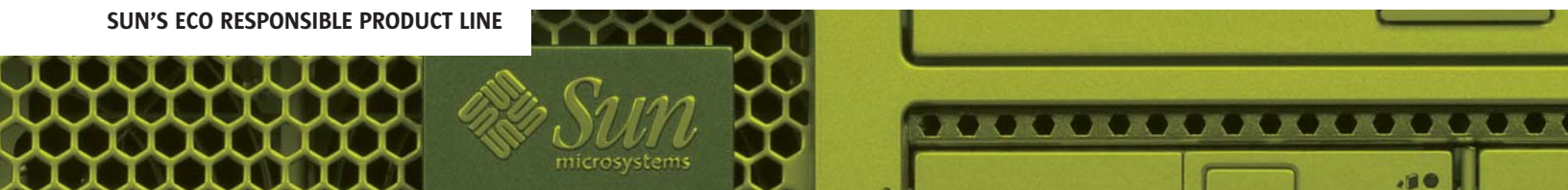
Sun's approach to product design takes into account the following environmental considerations:

- Increasing energy efficiency to promote the conservation of natural resources and reduce

emissions related to power consumption

- Disassembly and sorting process at product end of life to facilitate the recovery, recycling, and reuse and/or remanufacturing of materials
- Selection of resins containing recycled content to promote the use of collected plastics and stimulate recycling economics
- Minimizing the use of potentially harmful substances
- Ensuring our compliance with the environmental requirements of international standards organizations and government regulations

SUN'S ECO RESPONSIBLE PRODUCT LINE



Sun leads the industry in offering a portfolio of eco responsible products that deliver a high-performance, sustainable computing solution to address customer IT needs. Our goal is to design all our products with energy efficiency and eco responsibility in mind, while continuing to deliver the industry-leading performance customers have come to expect from Sun. In fact, a few stand out as great examples.

Sun Fire™ Servers

In November 2005, Sun introduced the first eco responsible computer processor, the UltraSPARC T1 with CoolThreads™ technology. In an era when most processors use 150 watts, our UltraSPARC T1 processor uses just 70 watts, about the same amount of energy as a single incandescent light bulb. In addition to the environmental benefit of greatly reduced energy use, Sun's customers stand to realize significant cost savings on power, cooling, and real estate.

Powered by the UltraSPARC T1 processor, Sun Fire™ T1000 and T2000 servers pack the performance of a rack of servers into a single 32-thread chip, consuming less energy, generating less heat, and taking up less space in the datacenter. In fact, energy savings are greater than \$1000 per year, per server.



In 2006, Pacific Gas and Electric Company (PG&E), one of the largest natural gas and electric utilities in the United States (serving 350,000 California businesses), announced that it was offering significant rebates as part of a new energy incentive program for computer servers. The Sun Fire T1000 and T2000 servers, which are three to five times more energy efficient than competing systems and take up less space, were the only servers to qualify for the rebate program. As part of PG&E's Non Residential Retrofit Program, customers replacing existing equipment with these eco responsible servers can receive a cash savings between \$700-\$1000 per server — on top of the energy savings they already realize. This is the first-ever incentive rebate offered by a public utility company for servers.

Sun Ray™ Clients

As an alternative to desktop computers, the Sun Ray™ virtual display client is an alternative desktop unit that enables employees to work off the network server — whether they are at an onsite location or working remotely. Compared to desktop or fat-client computers, the Sun Ray client is significantly more energy efficient and has a longer useful life.

TAKING RESPONSIBILITY FOR PRODUCT END OF LIFE

Electronic components and equipment naturally reach an end of life. Sun believes we have a responsibility to design and plan for this phase in our products' lifecycle. This includes:

- Designing for easy disassembly of our computer equipment
- Minimizing the use of potentially harmful or problematic materials in our products that, if sent to landfills, may seep out and harm the environment
- Implementing global recovery and take-back programs

Designing Products for Easy Disassembly, Recovery, and Recycling

Many of Sun's products, including our workstation enclosures, have design features that enable efficient disassembly and sorting at the end of the product's useful life. This includes the use of snap-fits, separable shielding materials, and other features that make our products more readily recyclable. Sun also remanufactures older equipment for reuse to limited secondary markets and successfully operates an asset recovery program that separates component commodities and materials for resale and recycling.

Limiting the Use of Potentially Harmful Substances

Sun is committed to minimizing the potentially harmful substances used in developing and manufacturing our products. In addition to complying with all applicable substance legislation worldwide, including the European Union's Restriction of Hazardous Substances (RoHS) Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment, Sun has initiated efforts to remove and/or reduce other potentially hazardous substances from the design and manufacture of our products.

We are fully committed to maintaining our current goal that less than 5% of our products end up in a waste stream.

Sun's product specifications also prohibit the use of substances that are generally believed to negatively affect the ozone layer. These substances include polyvinyl chloride (PVC)¹, chlorofluorocarbons (CFCs), and hydrochlorofluorocarbons (HCFCs), among others. In addition, Sun's batteries do not contain any mercury, cadmium, or lead.

Sun is committed to adhering to the highest standards for all of our products, regardless of where they are made or sold. All newly designed products released in 2006 and beyond are expected to be RoHS compliant.

Some Sun products, including servers, use the allowed exemptions for lead that are included in the EU RoHS law. Sun is concerned about the reliability of unproven alloys in mission-critical applications, and is currently qualifying lead-free replacements. Our goal is to begin using lead-free replacements in these exempted products as soon as a viable alternative is available.

Global Take-Back Program

Sun has implemented a global product take-back and recycling program that recycles, reclaims, and reuses components or entire systems. End users can return their end-of-life equipment (including equipment purchased from competitors) to Sun for recycling, reuse, or proper disposal. Used computer equipment is collected and sent to a third-party asset recovery vendor who recovers useful parts. These parts are then returned to Sun for remanufacture and reuse, often as field

replacement units. Components and assemblies that have no commercial value as functioning systems or components are broken down for the recovery and recycling of metals and plastics.

Sun's global take-back program is strong, and we are fully committed to maintaining our current goal that less than 5% of our products end up in a waste stream. The amount of electronic waste is expected to increase over the next few years. And as more customers become aware of these issues over time, more electronic waste is expected to come back to Sun. This means that our global take-back program would handle more and more products. Yet despite this increase, Sun will continue with our efforts to improve our global take-back program.

EU Waste Electrical and Electronic Equipment Directive

When Sun-branded electrical and electronic equipment has reached the end of its useful life, Sun collects the products from our customers and routes it to our recovery facilities. From there, the waste is audited and screened for disposition. Whenever possible, products are reused in Sun's remanufacturing operation. Materials that cannot be reused in some form are recycled by Sun's asset recovery contractor. A significant portion of Sun's product returns are recovered, either through remanufacturing, reselling, or recycling, with minimal waste being generated.

¹ PVC is only found in cable coverings and CD-ROM jackets.

Beginning in August 2005, the European Union (EU) Directive 2002/96/EC on waste electrical and electronic equipment (WEEE) required that producers of electronic equipment take responsibility for the collection, reuse, recycling, and treatment of equipment that the producer places on the EU market. Sun's global take-back program covers the collection, treatment, recovery, and disposal of all electrical and electronic equipment sold by Sun in the EU member states on and after August 13, 2005. We are committed to full compliance with the WEEE Directive and accept our environmental responsibility for managing WEEE.

To ensure compliance with the WEEE Directive, Sun labels its electronic products with the WEEE label to alert our customers in the EU that products bearing this label should not be disposed of in a landfill or with municipal or household waste. Instead, we offer a return and collection system available to customers for discarding these products.

Working together with our customers for the return of Sun products enables us to better meet our environmental stewardship goals in the EU and continue our commitment to protecting the global environment.

Under the EU WEEE Directive, Sun was required to meet the following recovery targets by December 31, 2006:

- The rate of recovery shall be increased to a minimum of 75% by an average weight per appliance.
- Component, material, and substance reuse and recycling shall be increased to a minimum of 65% by an average weight per appliance.

More information about Sun's WEEE take-back program is available at sun.com/aboutsun/ehs/weee.html.

California Electronic Waste Recycling Act

Sun currently has processes in place to manage electronic waste in accordance with local laws, and will continue to work with customers on equipment returns and materials recycling.

One example is the California Electronic Waste Recycling Act of 2003, Covered Electronic Waste Payment System (SB 50), which requires that customers pay recycling fees for certain electronic devices at the time of purchase. Under this law, Sun currently recycles more than 395,000 pounds of materials annually. This represents 99.7% of the end-of-life product, leaving 0.3% going to California landfill (as reported in the SB 50 Annual Individual Reporting Form).

DEVELOPING A PACKAGING STRATEGY FOR THE FUTURE

As part of our broader approach to waste reduction, Sun is committed to reducing the environmental impacts of our packaging. During 2007, we plan to evaluate our entire packaging strategy. Based on our findings, we intend to develop and implement an appropriate action plan that addresses any potentially negative

environmental impact. We will include a status update on these efforts in our next CSR Report.

The following outline details our current packaging strategy:

- **Recycle.** We design packaging solutions that encourage and enable recycling. For example, plastic materials are marked with material type, and no two different materials are permanently combined.
- **Emissions.** No ozone-depleting substances (ODS) are used in the production of our packaging. All the inks used in our packaging are water-based, and the papers (cardboard) used in our packaging are manufactured without chlorination.
- **Product Documentation.** Our efforts at reducing the environmental impact of our packaging extends to the documentation included with each of our products. Typically, each product only comes with an installation manual and any required registration or licensing materials. All other documentation or related manuals are usually included on the CD/DVD with the software or can be downloaded. This approach has allowed us to significantly reduce the amount of paper we ship with our products.

REDUCING PACKAGING WASTE

When one of Sun's employees suggested a way to reduce server product documentation, it led to significant cost savings associated with saving paper and other resources, improved our customers' experience, and is delivering environmental benefits. This is just one example of the ways in which our employees are often the drivers of the kind of innovative change that enables us to continually improve our operations and be more eco responsible.

DEVELOPING SUSTAINABLE IT SOLUTIONS

Increasing the energy efficiency — and optimization — of our products enables our customers to minimize the environmental impact associated with their IT operations and realize cost savings in the form of lower utility bills and longer product life. At Sun, we are continually innovating and developing new sustainable computing solutions.

Efficiency and Consolidation Through Virtualization

Virtualization allows a single resource — a server, an operating system, an application, or a storage device — to perform different operations over time and to appear to function as multiple resources.

In October 2006, Sun announced its comprehensive approach to virtualization. The Solaris™ 10 Operating System is the foundation of our approach. It delivers powerful virtualization capabilities, such as containers for consolidating and virtualizing hundreds of

applications on a single system and logical domains for running multiple operating systems simultaneously on a single system.

Combined with our servers, storage, and services, this approach helps customers optimize their IT infrastructure by enabling increased utilization and efficiency from fewer systems that use less energy and require less space. Our approach to virtualization provides benefits to both our customers and the environment by reducing the amount of energy — and cost — required to operate IT infrastructures and, in turn, reducing the amount of CO₂ emissions generated.

Sun continues to make major investments in virtualization and believes that further innovation in this space can bring additional benefits.

Improving Datacenters with Project Blackbox

In October 2006, Sun clearly demonstrated our drive to create and deliver innovative, eco responsible, sustainable computing solutions with the introduction of Project Blackbox, a radical new concept for the future of network

infrastructure. Project Blackbox — a scalable datacenter built into a standard shipping container — uses state-of-the-art cooling, monitoring, and power-distribution systems and takes up significantly less physical space than a traditional datacenter. Together, these features will allow Sun customers to realize significant cost and environmental savings associated with operating their datacenters, not to mention enhanced computing performance.

Aside from the business benefits of rapidly building a datacenter or enabling increased datacenter capacity without having to undertake the cost and complexity of building a new class-A facility, Project Blackbox also offers enormous potential for developing or disaster regions. Governments and global relief organizations could leverage Project Blackbox's easy management and support for up to 10,000 simultaneous desktop users — without administrators — to bring computing to remote regions or closer to impacted regions to aid in disaster-relief efforts.





OUR COMMITMENT TO ACTING RESPONSIBLY

Sun is committed to corporate social responsibility, and this is demonstrated by our actions. It is reflected in the ethical manner in which we govern and operate our business, how we manage our environmental impact, the workplace environment we create, and the actions we take to be inclusive and embrace diversity.

Act.

Through the process of producing this report, we had the opportunity to reflect on our practices, identifying our strengths as well as areas for improvement. Throughout this section, we share our findings and discuss specific plans we are making to improve performance. This section will look at:

- Corporate Governance
- Ethical Business Conduct
- Privacy Protection and Security
- Eco Responsibility Initiative — Internal Practices
- Workplace Practices — Embracing an Open Work Concept
- Efficiency and Responsibility Throughout the Supply Chain
- Supplier Diversity
- Global Inclusion
- Recognition of Sun's Efforts

SUN'S BOARD OF DIRECTORS

- Scott G. McNealy (Chairman)
- James L. Barksdale
- Stephen M. Bennett
- Peter L.S. Currie
- Robert J. Finocchio, Jr.
- Patricia E. Mitchell
- M. Kenneth Oshman
- Jonathan I. Schwartz
- Naomi O. Seligman
- P. Anthony Ridder

CORPORATE GOVERNANCE

Sun believes strongly that good corporate governance serves as the foundation for ethical transparent practices and helps to ensure that a company conducts its business with integrity. Adhering to sound corporate governance principles can lead to better risk management, strengthen a company's financial health, and build investor confidence. We are deeply committed to good governance practices, ethical business conduct, and transparency.

Board of Directors

As a publicly traded company, Sun is governed by a Board of Directors. The Board is composed of ten directors, eight of whom meet the definition of director independence by NASDAQ. The three committees of the Board are: Audit; Corporate Governance and Nominating; and Leadership Development and Compensation. All directors serving on these committees are independent.

Sun's Board of Directors is held accountable to the same Standards of Business Conduct as all Sun employees. In April 2006, Sun's Board of Directors participated in a training session to strengthen their knowledge of the company's compliance- and ethics-related matters. The

training was customized for Sun Board members, specifically focusing on:

- The importance of the compliance/ethics program and their role, as Board members, to provide oversight of such programs
- The risks that Board members themselves could potentially create, for example, conflicts of interest or corporate opportunities

Sun's Corporate Governance Rating

Sun is proud of the continual progress we have been making to improve our corporate governance practices. The most widely used and recognized measure of corporate governance practices is the Institutional Shareholder Services (ISS) Corporate Governance Quotient (CGQ). ISS independently rates more than 8000 companies on the quality of their practices and relative to their index and industry. From December 2005 to December 2006, Sun's CGQ rose nearly 30 percentage points.

	Sun's Index Score ²	Industry Score ³
Year End 2005	34.0%	89.1%
Year End 2006	62.8%	95.0%
% Improvement	84.7%	6.6%

² Index score for S&P 500

³ Industry score for technology, hardware, and equipment sector

Transparency and Accountability

Maintaining the highest levels of transparency and openness for our business is paramount for Sun. And as such, we are continually seeking opportunities to strengthen our policies and procedures necessary to provide complete transparency throughout our organization.

Transparency is fundamental to building and maintaining trusted relationships with our stakeholders. Our openness allows them to know what is occurring within the company, see how we operate, and get acquainted with many of Sun's employees. This report offers us a good opportunity to pull back the curtain on our business operations and be publicly accountable for our actions.

Providing Transparency About Stock Options

Recent events within the technology sector have underscored the need for greater disclosure with respect to how a company determines compensation, such as stock options. As part of Sun's commitment to transparency, we have included detailed information about how Sun grants stock options in our 2006 proxy statement filed with the SEC. The proxy statement can be viewed at sun.com/aboutsun/investor/annual_reports/proxy_statement_06.pdf.

Sun Bloggers

Sun has embraced a progressive approach to transparency through the use of blogs. Today, more than 4000 Sun employees (as well as former employees) maintain public blogs. Blogging has become a defining aspect of Sun's culture and is something the company strongly encourages. Our employees express their ideas, share their points of view, and communicate with our stakeholders through this online forum.

The content on these blogs is entirely author-driven. Our employees are not required to obtain approval for their content, even though Sun does not necessarily agree with everything written. And that fact alone demonstrates how important providing transparency is to Sun. We invite our stakeholders to see what Sun is up to by visiting sun.com/aboutsun/media/blogs.

Sun's community of bloggers includes:

- Chief Executive Officer
- Chief Technology Officer
- General Counsel
- Chief Open Source Officer
- Vice President of Eco Responsibility
- CSR Program Manager
- CTO for Sun Services
- Director of Web Technologies
- Director of Sun Microsystems Foundation

ETHICAL BUSINESS CONDUCT

For more than 15 years, Sun has published our internal Standards of Business Conduct and required that our employees worldwide fully participate in meeting these ethical guidelines. Since 2004, members of Sun's Board of Directors have also been required to adhere to the Standards of Business Conduct.

In 2001, Sun established a Business Conduct Office (BCO) to develop and manage a global business conduct program. This program is focused on providing board members

and employees with the necessary resources, guidelines, and training to help ensure that they understand the high standards of responsible business conduct that Sun expects them to uphold.

Specifically, the role of the BCO is to:

- **Advise:** Assist all Sun employees in fulfilling their obligations to Sun with respect to responsible business practices and legal compliance
- **Educate:** Ensure that Sun employees understand ethical and legal implications involved in the performance of their duties
- **Respond:** Provide a confidential resource for employees to seek advice, obtain information, and report violations concerning Sun's Standards of Business Conduct
- **Communicate:** Articulate expectations regarding Sun's legal and business conduct standards

All newly hired employees receive a copy of Sun's Standards of Business Conduct booklet and must complete mandatory online training within their first 120 days of employment. Since its creation, the BCO has successfully trained more than 40,000 employees through its online program.

In addition to general business conduct training, Sun also requires employees to complete online training specifically related to:

- Export Control Compliance
- Antibribery and Corruption Compliance
- Conflicts of Interest
- Intellectual Property Protection
- Information Technology Security

Since its creation, Sun's Business Conduct Office has successfully trained more than 40,000 employees through its online program.

Sun strongly believes that ethics training is important and should be mandatory for our employees. In some countries where Sun operates, local rules and regulations do not allow Sun to require mandatory training for our employees without review and special approval. For instance, in Germany, Sun's BCO and local managers are currently engaged with "work councils" to institute a program for Sun's Germany-based employees to complete the same mandatory compliance training as other Sun employees.

Updates to Sun's Standards of Business Conduct are made approximately every two years, with input from specific stakeholders throughout the company. When the Standards are updated, they are translated into nine languages. All employees are made aware of the specific changes via Sun internal communications.

We invite you to view Sun's Standard of Business Conduct at sun.com/aboutsun/sbc/SunStandardsBusinessConduct.pdf.



Employees who act as data stewards are given Web-based and/or in-person training.

Adviceline Resource for Employees

In 2001, Sun implemented the Adviceline, a resource for our employees to seek help and report violations of the Standards of Business Conduct or the law. The Adviceline is available 24 hours a day, 7 days a week. In addition, in 2005 the BCO implemented an online reporting tool that allows employees to seek information or report violations anonymously via the Web.

Employee Training on Compliance Issues: Fiduciary Boot Camp

In 2003 and 2005, Sun held a Fiduciary Boot Camp for all employees involved in Sun's financial reporting process and internal controls, providing them with essential training they needed to fulfill their fiduciary obligations.

The original one-and-a-half-day classroom training session in 2003 covered a variety of topics — from U.S. export control laws to fraud prevention. More topics were added in the 2005 session, including partner management and compliance; antitrust and competition law; data protection and privacy; insider trading and confidentiality; interactions with media and analysts; and employment law.

To date, more than 3000 Sun employees have attended Sun's Fiduciary Boot Camp session.

Employee Feedback: Employee Integrity Survey

To help ensure that Sun's Business Conduct program continues to evolve and reflect our ever-changing business environment, the BCO annually conducts a global employee survey. This survey is designed to measure employees' perceptions of integrity in the workplace as well as the effectiveness of Sun's current Business Conduct program. The survey is randomly distributed to 4000 employees in various work locations, all of whom are invited to complete the survey and submit it anonymously.

In 2006, 1436 employees participated in the survey, representing a 36% response rate. The results indicated that 94% of respondents believe the company is committed to conducting business with integrity. And 98% of respondents indicated that the company upholds its policies and regulations, and at times even goes beyond what is expected in this regard.

Over the years, responses have repeatedly shown that employees often turn to their direct manager for advice and to report perceived business conduct violations. The BCO will continue to invest in training to help ensure that all managers know how to promote an ethical business environment.

PRIVACY PROTECTION AND SECURITY

Sun's vision for equal participation on the network requires that we continually work to protect the privacy of everyone participating on the network, no matter who or where they are. Because we view data protection as a fundamental corporate responsibility, Sun appointed a Chief Privacy Officer to ensure the following:

- Continual development and improvement of our data privacy policies and practices
- Product development teams have access to expert support to help Sun deliver innovative, privacy-enabling products and services for our customers
- Experience, insights, and lessons learned with the global privacy community are shared

SETTING GOALS:

Privacy Checks and Balances for All Sun Products by 2010

Sun has established a goal that by 2010, all products will include privacy checks and balances throughout the product lifecycle. This means that any product or service that manages or allows access to personally identifiable information (PII) must be conceived, designed, developed, tested, and sold with privacy principles and standards embedded into the process.

Standardization of Data Control Technologies

Sun believes that everyone working on the network is best served by an approach to data control that is informed and governed by fair processing principles. To ensure this practice, we will continue to work with customers, governments, and even competitors on standardization of data control technologies, regulatory imperatives, and best practice-driven process management. We are also

involved with a number of organizations as part of this effort, including:

- The Liberty Alliance
- The Center for Information Policy Leadership (CIPL)
- The International Association of Privacy Professionals (IAPP)
- The Ponemon Research Institute
- The Conference Board
- European Privacy Officers Forum

Protecting Employee Privacy

After years of implementing and monitoring various privacy policies and practices, each of which was designed to meet specific local laws in different regions where we do business, Sun determined that one overarching privacy standard was needed to better protect our employees' privacy. To meet that need, in 2006 we created and implemented Sun's Global Human Resources Privacy Policy, which applies to all of our employees in every country where Sun conducts business.

All Sun employees received an email alerting them to the new policy and directing them to Sun's intranet site for more information about the policy. Online training is available to help ensure that our employees understand the policy and related guidelines. For our employees and vendors, we also conduct training sessions to provide any person who touches data at any point — from collection to deletion — with the information and the tools they need to meet our high standards.

If any employee is concerned that their privacy — or the privacy of another Sun employee or business partner — has been violated, they are encouraged to submit their concerns through one of our online contact centers. These communication channels have been effective in helping us resolve potential problems for more than seven years.

Protecting Customer/Partner Privacy

Sun's customer privacy policy governs all personally identifiable data that pertains to nonemployees, whether they be consumers of our technologies, partners, attendees at our Sun events, or casual browsers on our Web properties. And much like our employee policy, our customer privacy policy is designed to respect the data of all who interact with us, regardless of the individual's geographic location. Fair processing principles, along with the highest of the international standards, are our benchmarks and our mandatory standard of care.

Employees who act as data stewards are given Web-based and/or in-person training. An email-based support hotline is available for all questions and as a resource to plan and manage data protection before, during, and after personally identifiable information is collected, managed, and ultimately, appropriately destroyed.

Sun's data protection team partners with our stakeholders across the business to help ensure that respect for personally identifiable information remains one of our global core values and competencies.

Sun's privacy policies can be found online at sun.com/privacy or can be accessed on every page of our Web site at sun.com. Visitors to our Web site are encouraged to send us any privacy-related question they have via email to privacy@sun.com.

Information Security: Making the Network Secure

The Network is the Computer has been a vision and belief of Sun from our very beginning. But we also understand that this is only true if the network is secure and participation is safe. That is why Sun has a dedicated staff

responsible for information security throughout our organization, encompassing our business practices as well as our products and services. The IT Security Office (ITSO) is responsible for oversight, governance, and risk management of all information security issues at Sun. Sun's information security program covers areas such as:

- Security policy development, maintenance, awareness, and compliance
- Security risk evaluation, management, and mitigation
- Incident management, including monitoring, response, and remediation
- Vulnerability alerting and management
- Investigations and forensics
- Security solution design and implementation for the internal environment

ITSO works with various groups throughout Sun to identify and resolve information security issues throughout our business. These groups include legal, human resources, worldwide security (physical security), privacy, and various customer-facing organizations. ITSO also works with Sun's business units to help ensure that any information security risks have been identified, cataloged, and properly remediated.

When it comes to our products and services, Sun takes a whole-system approach to security and compliance. The Sun Systemic Security Program integrates layered protections directly into essential IT infrastructure. And with our partners, we also provide services to help customers manage their risk, comply with regulations, and achieve business growth.

ECO RESPONSIBILITY INITIATIVE — INTERNAL PRACTICES

Sun's Eco Responsibility Initiative applies not only to our products, but also to how we operate. This includes our efforts to reduce Sun's carbon footprint, develop an alternative energy strategy, and minimize waste. Our commitment to eco responsibility also extends to Sun's Open Work program, which enables many of our employees to work remotely and flexibly, thus reducing the impact associated with their personal commuting and the company's real estate footprint.

Sun's Carbon Footprint

Sun reiterates its commitment to a 20% reduction of our greenhouse gas emissions (GHG) over 2002 levels by 2012. We made this commitment originally as part of the U.S. Environmental Protection Agency (EPA) Climate Leaders program.

We have taken a giant leap in establishing such an aggressive GHG reduction goal. Achieving our goal will take a concerted effort as well as a coordinated strategy, and will involve the following steps:

- Continue to fine-tune our 2002 baseline GHG emissions data, on which our 20% reduction goal is based
- Establish tracking systems to capture and measure our GHG emissions and report our findings publicly and against our baseline data
- Develop a global baseline and set reduction targets for all operations worldwide by the end of calendar year 2007
- Continue to reduce energy usage in our datacenters, converting them into eco responsible facilities
- Develop an alternative energy strategy

Reducing Energy Consumption with Eco Responsible Datacenters

Sun's datacenters, like those of many large companies, account for a sizable portion of our real estate footprint and a significant share of our total energy usage. Datacenters typically have large numbers of servers located closely together, emitting large amounts of heat that need to be cooled with special equipment, thus requiring even more energy consumption.

Sun is moving toward "greening" our datacenters — in other words, making them smaller and more energy efficient so that they will emit less carbon and cost less. Our vision is to accomplish all of this without compromising capacity and security. We will publicly report on our efforts to reduce datacenter energy use and CO₂ emissions.

CASE STUDY

GREENING SUN'S DATACENTER IN COLORADO

One of Sun's U.S.-based datacenters is located in Broomfield, Colorado. At this facility, we replaced three-year-old servers, which took up a large amount of space in the datacenter, with considerably smaller units — the new Sun Fire T2000 servers.

Although smaller in size, these new servers deliver twice the computing capacity as the older models, which means only half as many servers are needed to do the same job. Whereas Sun's Broomfield facility previously required 22 servers (stored in 11 racks), it now uses 11 Sun Fire T2000 servers (stored in one rack) to provide the same computing capacity.

The previous servers, which were installed two to each rack, each consumed 3200 watts of power, generating a corresponding amount of heat in the datacenter that then needed to be cooled. Installing the smaller Sun Fire T2000 servers, which consume only 400 watts of electricity and emit less heat, saved on space and reduced energy usage. The power savings of 617,000 kilowatt (kW) hours translates into a direct cost savings of \$40,000 in electricity, with an additional \$40,000 to \$60,000 saved by also reducing cooling needs. Drawing less power through the entire datacenter lessens the risk of electrical losses as well.



Sun Fire V880 Server
15 rack units high



New Sun Fire T2000 Server
2 rack units high



11 racks



1 rack

Alternative Energy Strategy

While reducing energy consumption will have the greatest impact on shrinking Sun's carbon footprint, another viable approach is to use renewable energy. Sun is working to develop an alternative energy strategy that will allow us to fulfill more of our energy needs off the grid by using solar, wind, and other renewable energy sources. In fact, for the past three years, Sun in the United Kingdom has been purchasing renewable generated energy. We believe that by investing now in renewable energy, Sun can help create and sustain a marketplace for alternative sources, and that could ultimately lead to lower energy costs for both consumers and businesses.

Solar Power

Sun is investigating the use of solar arrays for our Broomfield, Colorado campus. Several companies install and operate solar collector arrays in exchange for long-term power purchase agreements. One possible option is for Sun to use such a power purchase agreement to buy power from these arrays at a locked-in price

that is comparable to current electricity rates. We plan to finalize our near-term solar strategy by early 2007 and begin generating "clean" power within one year.

Renewable Energy Credits

Sun is exploring opportunities to purchase renewable energy credits from a third party as a component of our alternative energy strategy. By purchasing renewable energy credits, we would effectively displace other nonrenewable energy sources from the electric grid, thereby offsetting GHG emissions from our electricity usage.

Renewable energy credits — even a pilot program — would increase our energy costs because purchasing the credits would be an expense in addition to our utility bills. However, we believe that the resulting environmental benefits offset this investment. By displacing other nonrenewable sources from the regional or national electric grid, we can have a positive impact on the GHG emissions from our local power plants.

Renewable energy resources — including wind and solar energy — are constantly replenished and will never run out. In contrast, fossil fuels are nonrenewable; they draw on finite resources that will eventually dwindle, becoming too expensive or too environmentally damaging to retrieve.

(Source: www.nrel.gov/learning)

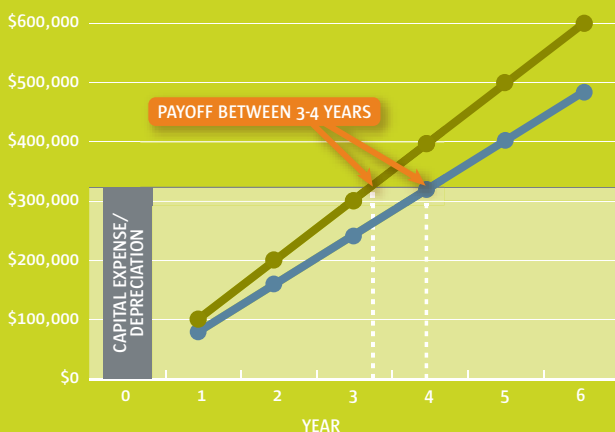
Carbon offsets are the process of reducing a ton of carbon dioxide emissions in another location for the emissions you cause in your home, office, commute, travel, or other activities that use energy and cause emissions.

(Source: carbonfund.org)

A **carbon footprint** is a measure of the impact human activities have on the environment in terms of the amount of greenhouse gases produced, measured in tons of carbon dioxide (CO₂).

(Source: carbonfootprint.com)

Savings from the Sun Fire T2000 Server Upgrade



Servers	Quantity	Racks	Power kW-hr/yr
Sun Fire V880	22	11	617,000
Sun Fire T2000	11	1	39,000
Savings	2x	10x	16x



SETTING GOALS:**Waste Reduction**

Sun plans to develop an evaluation and measurement system for waste management programs at all of our facilities by the end of calendar year 2007. Once we establish the most appropriate waste management metrics and improve our process for data collection, we will begin to evaluate our performance against industry norms. Based on this evaluation, we plan to set waste reduction targets that we will publicly report on our Web site (sun.com/aboutsun/csr) and in subsequent CSR Reports.

Sun also commits to evaluating our procurement policies and establishing targets and incentives that will increase the purchase and use of recycled and/or eco friendly office supplies.

**Managing and Tracking
Environmental Waste**

Sun has implemented internal waste reduction programs aimed at reducing the amount of waste — paper, water, garbage, and more — in our facilities worldwide. In our Europe,

Middle East, and Africa (EMEA) region, we are working hard to capture data related to our waste management systems so that we can track our usage over time. However, we have not yet developed the robust systems necessary to evaluate our waste management programs or set targets for reducing our waste and measuring our progress.

Participating in Eco Responsible Initiatives

Beyond creating and revising our own business practices and policies to improve our environmental performance, Sun participates in various initiatives that promote eco responsible business practices.

The Business Roundtable

Sun supported the launch of the Business Roundtable's Social Environmental Economic (S.E.E.) Change Initiative to encourage CEOs of the nation's leading companies to embrace business strategies and projects that measurably improve society, the environment, and the economy. Sun also participates in the Business Roundtable's Corporate Climate Response program.

Corporate Leaders Group on Climate Change

Sun participates in the Corporate Leaders Group on Climate Change, which brings

together business leaders from major UK and international companies who believe that there is an urgent need to develop new and longer-term policies for tackling climate change. The group is currently working in partnership with the UK Government toward strengthening domestic and international progress on reducing greenhouse gas emissions.

**Environmental Protection Agency
Climate Leaders**

Sun is an active member of the Environmental Protection Agency Climate Leaders program, which is a government-industry initiative designed to develop long-term comprehensive climate change strategies.

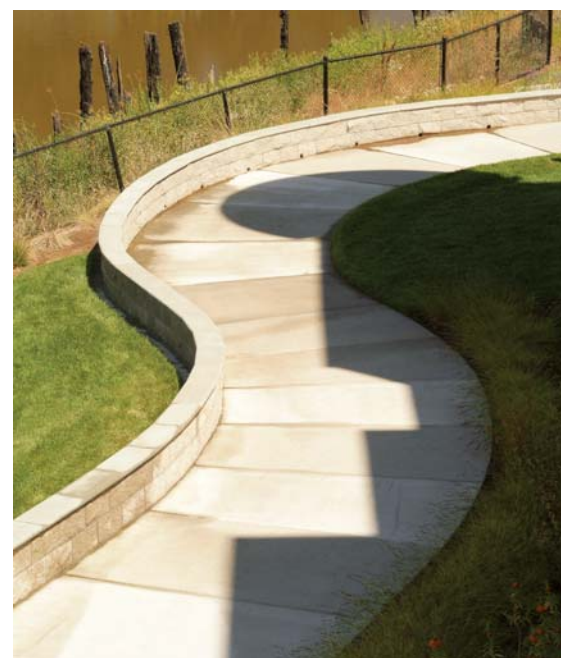
Forum for the Future (UK)

Sun is a Corporate Foundation Partner of the Forum for the Future and belongs to the group's Forum Business Network. The Forum Business Network is a group of companies that explores practical solutions to a range of sustainability issues.

Global e-Sustainability Initiative

Sun is a member of the Global e-Sustainability Initiative (GeSI), a global program in which major companies in the information and communications technology sector participate.

Sun is an active member of the Environmental Protection Agency Climate Leaders program, which is a government-industry initiative designed to develop long-term comprehensive climate change strategies.



WORKPLACE PRACTICES — EMBRACING AN OPEN WORK CONCEPT

Sun employees play an integral role in our Eco Responsibility Initiative, especially through their participation in Sun's Open Work program. The Open Work program combines innovative technologies, tools, and support processes that enable Sun employees to work effectively anywhere, anytime, using any device. This type of work environment reduces the importance of the traditional assigned office and instead provides flexible workspaces that are widely distributed, conveniently located, and shared by many, as well as the option to work from home. Through this program, more than 14,000 employees around the world work from home or in a flexible office up to two days a week, and approximately 2800 do so between three and five days a week. This represents close to 50% of Sun's employee population.

By providing the technology and financial support that gives our employees the flexibility to work from home — or closer to home — Sun is contributing to a better quality of life for our

employees, in addition to realizing significant cost savings and positive environmental benefits.

Greenhouse Gas (GHG) Emissions Reduction Due to Open Work Program in Fiscal Year 2006

- Employee fuel savings — 18,000 metric tons
- Real estate operational savings — 3000 metric tons
- Thin-client energy savings — 8000 metric tons

These savings are equivalent to permanently removing 6700 cars from the roadways each year.

Open Work Participants — Higher Job Satisfaction Levels

- 78% worldwide satisfaction ratings in fiscal year 2006.
- Work-from-home employees are more satisfied with their compensation than office-assigned employees.
- 85% of flexible employees would recommend Sun to others.
- Work-from-home employees rate their managers higher than employees who are office-assigned.

Saving Space, Costs, and the Environment

Sun's Open Work program delivers significant savings primarily in three areas:

Reduced real estate footprint and associated operating costs

- 7215 seats saved/avoided in fiscal year 2006
- \$67.8 million for fiscal year 2006
- \$387 million over the last 6 years

Reduced desktop system operating costs through the use of Sun Ray clients

- Over 31,000 client systems deployed in Sun
- Over \$24 million saved annually
 - \$15 million in system administration costs
 - \$2.8 million in electric power
 - \$6.5 million via desktop refresh initiatives

Reduced employee vehicle operating costs avoid:

- Burning over 125 gallons of gasoline each year per participating employee
- Vehicle emissions of CO₂ resulting in annual savings of just over one metric ton per participating employee

The Sun Open Work program delivers value in many ways.

For the company:

- A flexible workforce infrastructure enables agility in all parts of the company.
- The Open Work infrastructure supports business continuity when the unexpected happens.
- Open Work positions Sun to quickly and effectively respond to the next waves of growth in the industry with manageable capital expenditures.
- Energy cost and real estate savings result from the highly efficient use of Open Work technology.

For business units and managers:

- Open Work helps attract and retain the best people globally, regardless of their location.
- The Sun Open Work program uses the network to organize, expand, and integrate workgroups across the company, breaking down traditional organizational, physical, and technological barriers.
- Employees who choose a flexible work arrangement report higher morale and high productivity.

For employees:

- Decreases commute hours, with less associated cost and stress
- Enables more efficient and effective use of time
- Allows flexibility in planning work and meeting commitments
- Fosters improved work/life balance
- Delivers positive impact on self-reported productivity and job satisfaction

For society:

- Fewer cars on the already-crowded roadways
- Lower CO₂ emissions

Employees who work from home still consume energy through their use of computers, printers, lighting, heating, and cooling. Sun takes this usage into account when calculating the net effects of the Open Work program and setting new goals for the program.

SETTING GOALS:

Sun Open Work Systems

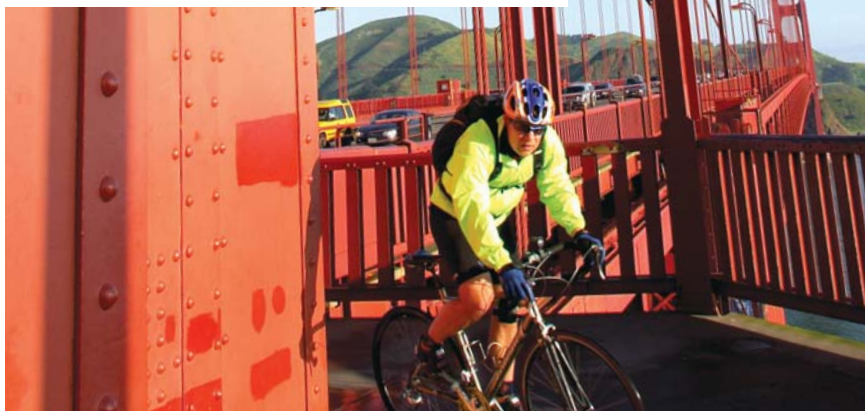
In fiscal year 2007, as part of our Eco Responsibility Initiative, Sun will standardize and execute the methodology to measure the corresponding CO₂ footprint and associated reductions related to the Sun Open Work program.

Sun Open Work Program

Currently, 17,000 Sun employees participate in Sun's Open Work program. Sun's goal is to increase this number by 10%, or an additional 1700 employees, by the end of fiscal year 2007. By expanding participation in the program, our carbon footprint will be further reduced. At present, the average Open Worker saves 1.17 tons of CO₂ emissions through reduced commuting. Assuming the 1700 new Open Workers are in place by the start of April 2007, we expect this to result in the elimination of nearly 2000 additional metric tons of CO₂ emissions.

By the end of fiscal year 2008, Sun's goal is to extend the Open Work program to an additional 5000 employees, bringing our worldwide participation total to nearly 23,000.

During the five-day 2006 JavaOne Conference, attendees logged nearly 10,000 miles on bikes and public transit.



SMART Commuting Program

The Sun Microsystems Alternative Resources for Transportation (SMART) Commute Program provides our employees in the United States with up-to-date commuter information, incentives, and shuttles connecting public transportation to Sun campuses.

More than 2900 employees participated in Sun's U.S. commuter incentive programs at our campuses in Massachusetts, Colorado, California, and Oregon. Additionally, our SunWay Shuttle program, which operates between Bay Area public transit stations and our campuses, provided more than 64,000 rides to Sun employees in fiscal year 2006.

In the United Kingdom, Sun and Nokia — located just one mile apart — share a bus service between both campuses and local services as part of an effort to reduce traffic congestion in the area.

Bike to the JavaOneSM Conference

In 2006, the JavaOneSM Conference, Sun's annual developer conference in San Francisco, took place during National Bike-to-Work Week. To support this effort, Sun partnered with the San Francisco Bike Coalition to offer a free Bike Valet service to biking conference attendees, and encouraged nonbiking attendees to use public transportation.

Approximately 100 bikers participated throughout the week, saving nearly 5 tons of CO₂ emissions from cars that would otherwise have been on the road. During the five-day JavaOne Conference, attendees logged nearly 10,000 miles on bikes and public transit.

In 2007, the JavaOne Conference will once again encourage participants to use alternative means of transportation, with a new goal of 20 tons of CO₂ savings.

EFFICIENCY AND RESPONSIBILITY THROUGHOUT THE SUPPLY CHAIN

As a global company, Sun continually searches for opportunities to gain operational efficiencies that will increase productivity, reduce costs, and ensure quality. In some cases, this is best achieved by outsourcing various functions, services, or activities to suppliers and service providers who not only bring world-class expertise, but also reflect Sun's conduct and ethics standards.

Regardless of where or with whom we do business, Sun requires that all of our suppliers meet our high standards for environmental practices and business conduct. We work closely with them to address and remedy practices that do not meet Sun's requirements.

Sun's Global Supply Chain

Sun's supply chain, just like the rest of our business, is truly global. Our products are developed, designed, and manufactured by more than 2500 suppliers in more than 30 countries around the world. We continually strive to manage this supply chain in a way that is consistent with our values.

Fiscal year 2007 represents the first year of Sun's formal Supply Chain Social and Environmental Responsibility Program. As part of this new program, one of the first activities was to conduct a supplier self-assessment, in which our top-tier contract suppliers reviewed their own social, environmental, and ethical purchasing policies. The self-assessment was based on criteria from internationally recognized standards on corporate social responsibility, such as the Electronics Industry Code of Conduct (EICC), Social Accountability 8000 (SA8000), and International Organization for Standardization (ISO) 14001.

As of December 2006, 59 of 100 contract suppliers have completed the survey, demonstrating that a majority of Sun suppliers have policies in place to address social and environmental responsibility and ethical purchasing. This supplier self-assessment will provide a baseline for comparison of our key suppliers that we can use to measure progress in the future. Sun will continue to collect data from all of our contract suppliers.

Supply Chain — The global network of manufacturers, materials suppliers, and service providers that enable Sun to deliver world-class products to our customers.

Contract Suppliers — Suppliers with whom Sun has a direct contractual relationship. Sun works with approximately 100 different contract suppliers, including contract manufacturers, core commodity suppliers, and others.

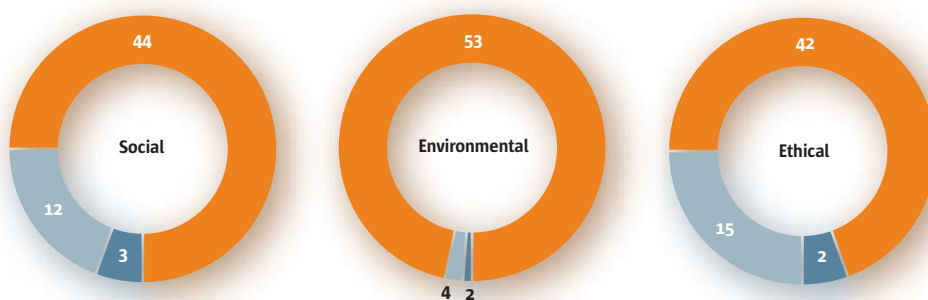
Contract Manufacturer — Manufacturers who are responsible for the production and quality control of Sun's finished goods to be delivered to our customers. Sun works primarily with six contract manufacturers worldwide.

Core Commodity Suppliers — Suppliers who provide Sun with core components, such as power supplies, memory, storage devices, ASICs, input devices, and so on. Sun works with approximately 25 core commodity suppliers worldwide.

Sourcing Partners — Suppliers who provide the necessary materials that go into building Sun's products, but with whom Sun does not have direct contracts.

Service Providers — Experts in specific business services such as systems integration, IT services, building management, human resources, and more. Service providers provide these services to Sun and/or Sun's customers in locations worldwide.

Results of Sun's Supplier Self-Assessment Survey



- Programs in place addressing all focus areas
- Programs in place addressing some focus areas
- No program in place

Responsible Supply Chain Management

Each Sun contract — whether with a manufacturing partner in Thailand or a service supplier in Dallas, Texas — contains provisions requiring our business partners to abide by certain laws and regulations. In addition, every Sun supplier and partner is provided with a copy of our corporate Standards of Business Conduct (SBC). The SBC is a living document at Sun, reviewed and updated regularly, that represents our values — the standards we are committed to upholding throughout our global supply chain.

SETTING GOALS:

Our Supply Chain Code of Conduct and Certifications

Sun is committed to ensuring that integrity, fairness, and environmental sustainability are upheld throughout our supply chain. To deliver on this goal, we are in the process of developing a Sun Code of Conduct that will be based on internationally accepted standards such as the EICC or SA8000.

We will expect 100% of our contract suppliers to adhere to the Sun Code of Conduct by 2008. In addition, by 2009 we will require our supply chain partners to provide proof of their compliance, as well as that of any suppliers with whom they contract with to provide materials that go into the manufacture of Sun products. We will use a combination of self-reporting and auditing to monitor compliance. Once these systems are in place, Sun will report publicly on how our supply chain partners are performing against our Code of Conduct requirements.

Certifications

In addition to requiring that our suppliers adhere to the Sun Code of Conduct, we will also require that our suppliers meet the internationally recognized environmental standards of ISO 14001.

ISO is a worldwide federation of national standards bodies that prepares international standards. ISO 14001 specifies requirements for an environmental management system. Environmental management systems are employed by organizations to assure environmentally sound business practices.

To date, 100% of Sun's contract manufacturers have achieved ISO 14001 certification. By the end of 2007, we will require all 100 of Sun's contract suppliers to meet the ISO 14001 standard of environmental compliance.

ISO Certification of Sun Manufacturing Facilities

In addition to working with contract manufacturers who are certified to the ISO 14001 standard, as of December 2006, Sun-operated manufacturing operations are recognized with ISO 14001 certification. This includes Sun's facilities in Louisville, Colorado; Hillsboro, Oregon; and Linlithgow, Scotland.

Global e-Sustainability Initiative

We believe in innovation, but not in reinventing the wheel. That is why we are exploring how to leverage our membership in the Global e-Sustainability Initiative (GeSI) and its supply chain working group. Sun is a member of the board of GeSI, a collective of companies in the information and communications technology (ICT) sector dedicated to advancing social and environmental responsibility throughout ICT companies' business practices, including the supply chain. We will work with GeSI and other organizations to develop and implement a responsible supply chain strategy. We will share the details of our progress in our next CSR Report.

SUPPLIER DIVERSITY

Sun relies on a global network of suppliers, vendors, business partners, and contractors to provide qualified sources of supplies and services based on our business priorities and requirements. We invite the extended community of small business owners to participate in our procurement process, including companies that are minority-owned, women-owned, and service-disabled veteran-owned; qualify as disadvantaged; or are located in historically underutilized business areas.

Sun's policy is to provide opportunities for all of these businesses to compete for Sun's acquisition of goods and services. And as such, we expect our procurement team to carry out Sun's Supplier Diversity policy. Sun requires evidence of efforts made to solicit business from the community of small businesses as well as regular tracking of our purchases of goods and services from these businesses.

Subcontracting Opportunities

Subcontracting opportunities for minority-owned, women-owned, and other types of small businesses generally extend to the acquisition of maintenance, repair, and operations products, services, and supplies, including capital equipment, consulting, and contract worker services. Fewer opportunities exist for commodities and/or services related to the manufacture of Sun's products due to our highly leveraged external manufacturing business model, which makes extensive use of contract manufacturers.

Sun's Supplier Diversity Outreach Efforts

The primary resource Sun uses to identify potential qualified small businesses is the U.S. Small Business Administration's Central Contract Registry database. We also attend trade fairs sponsored by the Small Business Administration, the National Minority Supplier Diversity Council, minority chambers of commerce, and others seeking to connect qualified small businesses with companies in search of suppliers.

Sun also undertakes a number of efforts to drive our procurement team to engage diverse businesses, such as:

- Sun's Chief Financial Officer communicates Sun's supplier diversity policy annually to all Sun employees, with particular emphasis directed toward those individuals responsible for purchasing and supplier selection decisions.
- Sun provides small businesses with a link on our external Web site that puts them in direct contact with the Supplier Diversity Office and commodity managers. The Web site is located at sun.com/aboutsun/coinfo/diversity.
- Sun participates in professional organizations that are chartered to advance the cause of small businesses.

SETTING GOALS:

Supplier Diversity

Because we are committed to supplier diversity, we review our goals related to Sun's annual purchases from minority-owned, women-owned, and small businesses. These goals are tracked and reviewed quarterly by Sun's Global Sourcing Services and audited annually by the United States Defense Contract Management Agency.

Our fiscal year 2007 goals are:

Business Classification ⁴	% of Annual Purchases
Large Business	93.00%
Small Business	7.00%
Total	100.00%
Small Disadvantaged Business	5.00%
Women-owned Small Business	5.00%
HubZone Small Business	3.00%
Veteran-owned Small Business	5.00%
Service-disabled Veteran-owned Business	1.00%

⁴ Approved U.S. General Services Administration (GSA) classifications.

Supplier Diversity Reporting

Sun annually reports our level of business activity with small businesses to the United States Federal Government (normally between September 30 and October 31, using the GSA Form SF295 report). Quarterly reports are made on an as-requested basis in response to specific customer requirements. Sun will continue to publicly report on our progress in meeting the supplier diversity goals we set as part of the U.S. Government's program.

Efforts to Improve Supplier Diversity

In an effort to increase diversity within our supplier base, Sun has taken a number of recent steps that include:

- Expanding outreach activities in the Rocky Mountains area, where Sun has a significant business presence
- Participating on the Board of Directors of the Rocky Mountain Minority Supplier Development Council
- Becoming a member of and participating in the Colorado Women's, Denver Hispanic, and Colorado Black Chambers of Commerce
- Attending Small and Disadvantaged Business Opportunity Council Trade Fair and Empowerment Breakfasts
- Contacting minority and small business trade associations
- Increasing attendance at minority-owned, women-owned, and small business procurement conferences and trade fairs

GLOBAL INCLUSION

Sun employees represent a variety of perspectives, and their innovative and enterprising spirit drives everything at Sun, including our success. Sun has a responsibility to provide them with an inclusive work environment that supports their professional and personal development and rewards them for their contributions.

A Model for Global Inclusion

Sun operates in the global marketplace, serving a wide range of customers. We believe it is essential to cultivate a workplace that embraces people from diverse backgrounds, values a broad spectrum of perspectives, and inspires employees to work together toward their goals and those of our business. We are committed to cultivating an inclusive workplace that serves to attract, retain, and develop talented employees.

Using the global inclusion model, we have identified opportunities to strengthen Sun's systems and processes, which we are now working toward. For instance, we are establishing goals for each of the areas of the model. This comprehensive approach is intended to encourage partnerships across the company, resulting in collaboration and collective ownership of "Inclusion at Sun."



Source: Aqua International

Some of our Global Inclusion strategic partners for fiscal year 2007 include:

- American Foundation for the Blind
- Anita Borg Institute
- Aurora Women's Network
- Executive Leadership Council
- Executive Women's Forum
- Information Technologist Senior Managers Forum
- National Association of Asian Professionals
- National Black MBA Association
- Network of Indian Professionals
- Out and Equal Summit
- Society of Hispanic Professional Engineers
- Women of Color in Technology

Employee Resource Network

To help us foster a more inclusive workforce, Sun builds relationships with external organizations to promote the hiring of diverse talent. We also support and manage an Employee Resource Network (ERN).

The ERN is a community of Sun employees, including councils and employee resource groups, that supports the work of Global Inclusion. It serves as an advocate for Sun and acts as the "voice of the customer" for company initiatives. The ERN promotes internal awareness and helps retain employees, customers, partners, developers, and suppliers.

Currently, Sun supports a variety of employee resource groups, such as:

- Asian American Diversity Network
- Black Employee Network
- Executive Diversity Council
- Gays, Lesbians, and Friends
- Global Inclusion Community
- Legal Diversity Council
- Society of Latinos
- women@sun

RECOGNITION OF SUN'S EFFORTS

Over the past two years, Sun has been awarded several notable honors for our efforts related to our corporate social responsibility efforts. Examples of some of the most recent recognitions Sun has received follow.

Best Place to Work for Commuters

For the third year in a row, Sun is among the top 10 Fortune 500 companies that lead the country by providing outstanding commuter benefits to a significant portion of its U.S. workforce to help decrease air pollution, traffic congestion, and dependence on fossil fuels. As named by the EPA and U.S. Department of Transportation, Sun tops the 2006 rankings as the number one company in the Computer and Office Equipment industry. As part of its efforts, Sun provides a wide array of benefits that help employees pursue environmentally friendly and cost-effective commuting strategies. Sun's commute programs, including the Sun Open Work program (a flexible work program for its mobile and distributed workforce), have eliminated more than 3000 tons of CO₂ emissions and have saved employees hundreds of thousands of hours that otherwise would have been wasted in bumper-to-bumper traffic.

Human Rights Campaign Corporate Equality Index

Sun scored a perfect 100% on the Human Rights Campaign's 2006 Corporate Equality Index, which examines and evaluates companies' policies with respect to gay, lesbian, bisexual, and transgender employees. This is the second year in a row that Sun has achieved a perfect score, after scoring an 86% in each year from 2002 to 2004. Our improvement highlights our commitment to celebrating our employees' different points of view, and is just one more example of how Sun succeeds when we develop innovative solutions for our business challenges.

Other recognition we have received includes:

2006

- Best Companies to Work for in Spain, *Actualidad Economica* magazine
- Most Admired Companies List — *US Black Engineer Magazine*
- Recognized in *San Jose* magazine's "Best Places to Work"
- Sun Microsystems Czech Republic — Announced as one of the Top 10 Employers
- "10 Best Companies to Work For (IT and Telecom)," *Great Place to Work Brazil* and *IDG/Computerworld* magazine

2005

- 50 Best Companies for Women to Work for in Brazil — *Revista Exame/Voc S/A*
- Human Rights Campaign Corporate Equality Index rating of 100%
- *Hispanic Magazine's* Top 100 Companies for Hispanics
- Most Admired Companies List — *US Black Engineer Magazine*
- Recognized for increasing our Human Rights Campaign (HRC) Corporate Equality Index — Reaching out MBA, Inc.
- Sun wins *Workforce* magazine's Optimas Award for Global Outlook
- Top Companies for Gay & Lesbian Employees — *The Advocate* magazine
- Employee of Choice Award 2004 (Sun Legal) — Minority Corporate Counsel Association (MCCA)
- YWCA of Santa Clara Valley's Tribute to Women & Industry Award (recognizing four Sun employees)



SUN'S COMMITMENT to SHARE, COLLABORATE, and SUPPORT

Share. It's a simple concept, yet one that has a tremendous payoff. It's also an ideal that has driven and defined Sun since its inception. Throughout our existence, Sun and our employees have diligently worked to develop open systems, inspire innovation, bring people together, and contribute in ways that strengthen our communities.

Share.

In the following section, we describe the ways in which Sun shares and collaborates with stakeholders across continents and sectors, and enhances our communities. Specific topics include:

- Openly Sharing Innovation and Technology
- Enabling Access and Participation
- Participating in the Political Process
- Giving Back to Our Communities
- Collaborating Across the Spectrum

OPENLY SHARING INNOVATION AND TECHNOLOGY

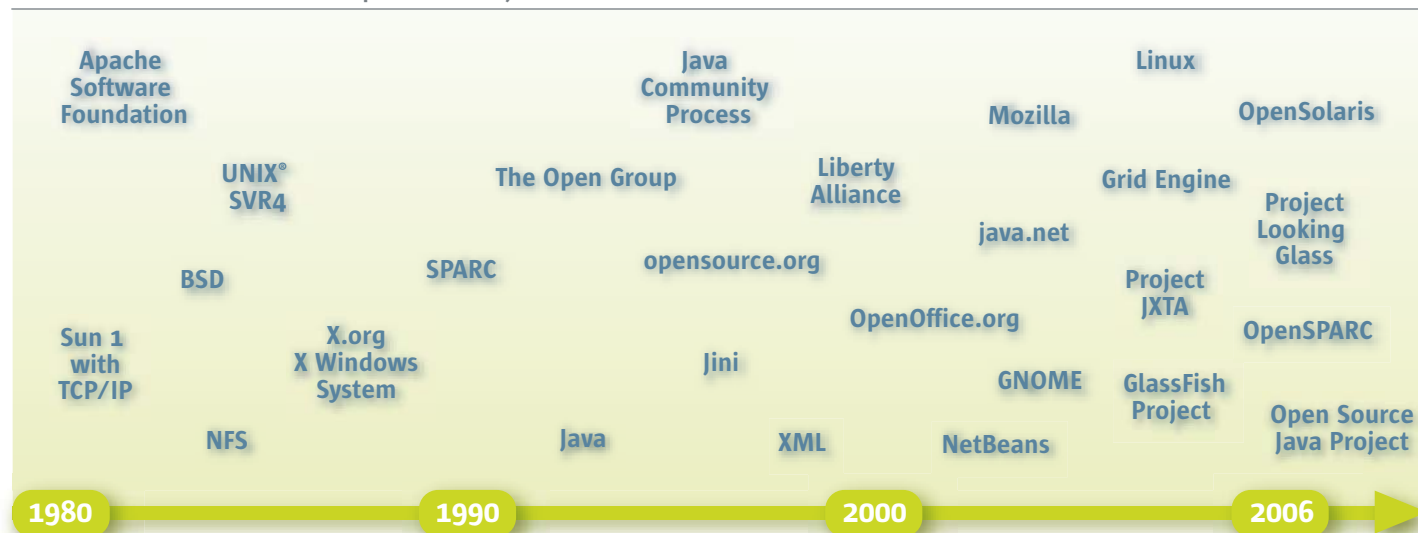
Breaking down the technological, social, and economic barriers that have conspired to constrain innovation is a challenge that Sun has readily embraced from day one. Our ability to build communities and promote the exchange of ideas on the network is transforming the way people of all ages and in all communities experience the network.

At Sun, we view “open source” as quite possibly the best way to inspire collaboration and innovation, and we strive to develop and support communities that are built on this idea.

One of the most powerful examples of how sharing and community building can change the world is found in Java technology and its developer community. Today, the Java IT community is the largest and most active on the planet. There are more than 5 million developers, architects, and programmers around the world, and thousands of Web sites. Java technology powers more than 4 billion devices — from cell phones, PDAs, and smart cards to game consoles, set-top boxes, printers, and more. And then there’s the Java Community Process, an all-inclusive community of more than 1130 members who have helped shape the direction of the Java platform.

In November 2006, in a historic move, Sun announced the open sourcing of key Java implementations under the GNU General Public License version 2 (GPLv2), the same license as GNU/Linux. With this move — delivering more than six million lines of code into open source — Sun is now the largest

Timeline of Sun’s Involvement with Open Source Projects



contributor to the open source community, having already released open source implementations of OpenSolaris, NetBeans, Project Looking Glass, Project DreaM, JXTA™, Jini™, OpenOffice, OpenSPARC, and Java Platform, Enterprise Edition (Java EE) technologies.

Java technology's phenomenal success validates our core philosophy that sharing and building communities through inclusion and open systems makes innovation and participation possible.

The OpenSolaris project is a community and Web site for collaboration, conversation, sources, downloads, mailing lists, events, and developer tools. Sponsored by Sun, the project was initially based on a subset of the source code for the Solaris Operating System. In just over a year, it has attracted more than 14,000 members and 29 different user groups worldwide, further demonstration of a community born out of Sun's commitment to openly share. OpenSolaris received the prestigious SIIA Codie award this year for the Best Open Source Solution.

ENABLING ACCESS AND PARTICIPATION

When Sun talks about enabling more and more people to access the network, we are not just talking about helping people get an Internet connection. We are talking about creating technologies — hardware, software, and services — that allow people to access the tools they need to participate. When people are networked, they can share ideas, interact with others they might never have been able to before, and collaborate together to solve the world's most challenging problems. Enabling participation creates social and economic value around the world.

Sun supports global participation in education and research through the Sun Technology and Academic Resources (STAR) portfolio of programs. These programs include opportunities for collaboration in addition to equipment grants and technology training resources. We also work with governments to solve their challenges associated with accessing and modifying archived documents. And we contribute in ways that enable people with disabilities to have access to the network.

Some specific examples of Sun's efforts include the following.

Developing Assistive Technologies

In 1998, the U.S. Congress passed the Federal Rehabilitation Act, which forbids the U.S. Government from purchasing electronic and information technology that is inaccessible to people with disabilities (with limited exceptions).

Sun has proactively taken this requirement one step further by building assistive technology into all of our systems, beyond just the products we sell to the federal government. We create and provide tools that are easy to build into Sun's existing technologies and that address the special needs of the visually impaired. We also create and provide access to technologies for people with limited or no use of their limbs, or who have limited range of body motion and other special needs.

Just as important as our efforts to deliver assistive technology in everything we build are our efforts to help others offer these technologies as well. Through Sun's open source practices, we make our programs available to the world by open sourcing them so that any developer has access to them, promoting further innovation and broader access.

The following examples demonstrate Sun's leadership in developing and offering assistive technologies:

- Sun created the Orca open source screen reader/magnifier to enable access for the blind and low-vision community. This endeavor was funded by the University of Toronto Adaptive Technology Resource Centre (ATRC), which also developed the GNOME Onscreen Keyboard (GOK).
- Sun makes Dasher available, an alternate predictive text-entry system for people with severe physical disabilities. Dasher was developed by the Inference Group in the Cavendish Laboratory at Cambridge University.
- Sun developed several themes for a variety of visual impairments. These themes are part of GNOME, the Sun Java Desktop System, and Sun's flagship Solaris Operating System.
- Sun also developed, defined, and implemented the Java Accessibility Framework and the GNOME Accessibility Framework, upon which these specialized software applications sit.
- Sun received the American Foundation for the Blind Access Award for the Java Accessibility Framework, as well as the Helen Keller Achievement Award for the GNOME Accessibility Framework.

Stanford Computational Earth and Environmental Science

In June 2006, Sun helped Stanford Computational Earth and Environmental Science (CEES) open its new research facility. Sun contributed hardware and software, including our Sun Fire x64 and UltraSPARC processor-based servers and the Solaris Operating System. We also provided support to help CEES better understand how to use the most advanced computing technologies in its search for solutions to some of the most pressing environmental challenges facing our planet today.

StarOffice™ Suite in Italy

Sun's StarOffice™ is a full-featured office productivity suite that is compatible with Microsoft Office. Sun signed an agreement with the Italian Ministry of Education to give StarOffice software at no cost to all Italian schools. To date, 3527 schools in the country use StarOffice software and now have access to productivity tools previously unavailable.

In addition, both parties have collaborated with the Java Italian Association (JIA) on an agreement to extend knowledge of Java technology within Italian schools by providing online access to Java technology training courses for students and IT teachers. These initiatives build on Sun's track record and commitment to effectively promote the use of technology in education.

SunShine Education Fund in China

In May 2000, Sun established the SunShine Education Fund, a program in China that provides impoverished students the essential environment and support they need to complete a primary education. Since then, we have helped build and maintain six schools in Greater China, with a seventh school currently planned and under construction. In addition, we have set up a scholarship program that provides support for outstanding students from low-income families to study in SunShine schools.

Helping Governments Through the OpenDocument Format

Launched in March 2006, the OpenDocument Format (ODF) Alliance was created to help solve the problem governments have in accessing, modifying, and using archived documents. As a founding member, Sun has embraced the OpenDocument Format, which is a recently approved international standard to help solve this problem. There are several commercial software applications currently in



StarOffice software is currently used in more than 3500 schools in Italy.

the market to help governments address this need, including our StarOffice software suite.

Sun is supporting the ODF Alliance and its more than 340 members in advocating that governments:

- Adopt policies that require open standards and deploy software applications that implement ODF
- Require support for ODF in future software procurement
- Insist that office applications used in government offices implement ODF as the default for saving documents
- Run pilot projects to explore the implementation of ODF-supporting applications and prove the cost-savings to be attained

Many national and local governments, including Belgium, Denmark, Norway, Brazil, France, Malaysia, Spain (Extremadura), India (Delhi), and the Commonwealth of Massachusetts, are making policy decisions to move to ODF.

Sun signed an agreement with the Italian Ministry of Education to give StarOffice at no cost to all Italian schools.

PARTICIPATING IN THE POLITICAL PROCESS

At Sun, we believe that government and industry need to work together to address issues and advance meaningful solutions. And we view our participation in the political process, including collaborating with governments, lobbying for solutions, and contributing funds to federal U.S. candidates through the Sun Political Action Committee (SunPAC), as an important part of our responsibility to our stakeholders and in the best interests of our company.

Each year, Sun develops and advocates positions on important public policy issues that are core to our business, namely those that affect the way people use or have access to technology. We believe that public policy is best made by legislators who know and understand our issues. We actively engage in dialogue with thought leaders and policy makers around the world, sharing Sun's perspective on the issues we care most about, such as access to and advancement of technology, a healthy natural environment, individuals' privacy, and intellectual property protections.

Collaborating with Governments

As part of Sun's commitment to eco responsibility, we work with governments and governmental agencies around the world on matters related to energy efficiency, sustainable computing, and a range of green business practices necessary to protect our planet.

Given the high environmental standards we have set for ourselves — in both the products we develop and through our internal practices — Sun is now challenging governments and businesses around the world to do the same. This means looking beyond simple compliance

for opportunities to advance stronger environmental practices. Three examples of Sun's efforts are detailed below.

H.R. 5646 — Energy Use and Datacenters

Sun recently joined forces with AMD, Intel, HP, and Dell to support a bill in the U.S. Congress (H.R. 5646) calling on the EPA to conduct a study on the impact of increased energy use in servers and datacenters. The bill directs the EPA to evaluate the potential cost and power savings that result from energy-efficient technologies. H.R. 5646 calls for a review of current government incentives offered for other types of energy-efficient products and services. It also includes a "sense of Congress" resolution that argues that it is in the country's long-term interest for purchasers of datacenters and servers to make energy efficiency a priority when evaluating the best value.

The bill was passed in the U.S. House of Representatives by an overwhelming margin of 417 to 4, and was passed in the U.S. Senate by unanimous consent.

ENERGY STAR Specifications for Computers

Over the last two years, Sun has been actively involved in working with the EPA on an ENERGY STAR specification for energy-efficient computers. We collaborated on the specification that exists today, and played a crucial role in creating and defining a workstation category within that specification.

The new EPA ENERGY STAR Computer Specification MOU#4, which will replace the existing specification, was finalized in 2006 and will go into effect on July 1, 2007. All computer manufacturers planning to use the ENERGY STAR logo on their products will first need to ensure that those products meet the new specification by the effective date.



Although the new specification presents several challenges for computer manufacturers, Sun expects to have a number of products meet the criteria and earn the ENERGY STAR logo in July 2007.

Sun, along with AMD, also hosted and assisted in organizing the Conference on Enterprise Servers and Datacenters: Opportunities for Energy Savings, which took place in January 2006.

People's Republic of China "Management Methods" Legislation

Sun is working toward complying with the upcoming People's Republic of China "Management Methods" legislation (referred to as China RoHS), which becomes effective March 1, 2007.

Sun has contributed to the legislative process, in part by serving as co-chair of one of the most influential consortia — the AeA China RoHS Steering Committee — and by communicating with the Ministry of Information Industry, which is authoring the China RoHS legislation. This consortium includes other major companies in the technology industry, such as IBM, HP, Dell, Intel, AMD, Cisco, and Motorola.

By serving as a co-chair, Sun is kept abreast of the upcoming legislative changes coming out of China, and serves as an advocate for implementation that is consistent with the already-implemented RoHS Directive in the European Union.

Lobbying Activities

When Sun actively engages with policymakers around the world, we do so under the strictest standards of conduct, as outlined in our corporate Standards of Business Conduct. These standards are typically and intentionally more restrictive than applicable local campaign finance, lobbying, or ethics laws.

Sun's Public Policy team seeks to build relationships with key officials, influence legislation and regulation, and advance the company's objectives in government and industry affairs worldwide. Part of this is done through our memberships in national trade associations, standards development agencies, and regional business groups where we have a significant presence.

Through our Global Public Policy Web site, U.S.-based employees are given the information and tools they need to cast informed votes in national and local elections or to contact elected and appointed officials. We also provide candidate guides and voting records, designed to indicate where an elected official or candidate stands on issues important to our company.

Political Contributions Through SunPAC

Public policy decisions are made daily that impact Sun's ability to do business. Sun strives to be an exemplary corporate citizen and participate responsibly in the public policy process. A key part of this process is providing information to Sun employees about important policy debates and giving them an opportunity to participate ethically and effectively in the political process.

In the U.S., Sun's employees and shareholders, as well as their families, are able to make voluntary contributions through the Sun Political Action Committee (SunPAC). Funds raised through SunPAC are contributed to responsible candidates seeking federal elective office whose views support Sun's ability to grow and build shareholder value.

SunPAC was established in 1999 as a voluntary, nonpartisan political action committee and is legally registered with the U.S. Federal Election Commission. Candidates who receive support from SunPAC are selected by a three-person steering committee with the assistance of Sun's Federal Affairs Office in Washington, DC.

GIVING BACK TO OUR COMMUNITIES

Sun's employees are at the heart of our giving programs. While a company has the ability to make a difference through philanthropic and in-kind contributions, we believe our communities are even better served when our employees are engaged and actively participate. Our community programs are designed with this in mind, including the initiatives of the Sun Microsystems Foundation.

The Sun Microsystems Foundation

Established in 1990, the Sun Microsystems Foundation has been working to create opportunities and foster equal access to technology ever since. We believe the Participation Age is built on a model of sharing and collaboration, and that the Foundation can play a role in this by supporting and enabling our employees' participation.

The Foundation is a separate nonprofit charitable organization, supported by contributions from Sun, that serves as the primary vehicle for our community investment efforts and allows for international charitable contributions.

The Sun Microsystems Foundation has contributed grants of Sun technology and services to schools and nonprofit charitable organizations that seek to increase participation of underrepresented populations in technology classes and careers.



Since its inception, the Foundation has contributed grants of Sun technology and services to schools and nonprofit charitable organizations that seek to increase participation of underrepresented populations in technology classes and careers.

The Foundation engages Sun employees in several ways:

- Through major initiatives, such as eliminating the digital divide
- As Sun Foundation Ambassadors
- By matching our employees' charitable gifts

Eliminating the Digital Divide

Our cause to eliminate the digital divide is representative of the core ideals of the Sun Microsystems Foundation, bringing programs to life that foster greater access to technology in underserved communities.

We have established a model that allows any Sun employee who is a member of the Friends of the Foundation Open Community to step forward with a vision for how to eliminate the digital divide in the community where they live. The model for submitting and reviewing proposals is completely transparent and wiki-based (that is, collaborative authoring that is very simple). Submitted proposals are subjected to a rigorous and transparent peer review, and a small subset are selected for funding and execution.

During fiscal year 2007, we expect to launch up to two employee-driven programs as part of our goal to eliminate the digital divide. A larger rollout of the program is planned for fiscal year 2008.

In 1995, Sun became one of the first companies in our sector to extend our Matching Gift Program globally, making it available to all Sun employees. In 2006, employee gift matching totaled more than \$2.2 million.

Sun Foundation Ambassadors

The peer community that selects proposals is determined by the Sun Foundation Ambassadors. Each spring, the Board of the Sun Foundation issues a call to Sun people managers worldwide, asking them to nominate candidates for three special Director seats on the Board of the Sun Foundation. In fiscal 2006, the candidate pool was so remarkably accomplished that the Board created a distinction for the college of nominees — the Sun Foundation Ambassadors. These individuals serve as leaders, spokespersons, and advisors to the Foundation.

Matching the Gifts of Sun Employees

The Foundation supports a global charitable giving program that matches Sun employees' giving on a dollar-for-dollar basis, up to \$1000 annually per employee. In 1995, Sun became one of the first companies in our sector to extend our Matching Gifts Program globally, making it available to all Sun employees. In 2006, employee gift matching totaled more than \$2.2 million.

Our commitment to support and encourage our employees' community participation goes beyond our Matching Gifts Program. We have organized virtual global giving drives that have helped to raise enough funds to cover the cost of serving more than 100,000 meals in 12 countries.

In fact, we believe so strongly in the importance of the gift matching program that we are currently undertaking a complete overhaul of

our giving infrastructure. Our goal is to make it easier for employees to contribute and receive matching funds. With this in mind, we are creating a more simplified, faster, single sign-on paperless process that we plan to launch during fiscal year 2007.

Making an Impact

We believe that our ability to make a sustainable impact will come from the contributions of Sun and our employees.

Helping Disaster Victims In Need

In 2005, Sun was recognized by the Red Cross for our contributions — personal donations as well as equipment and technical assistance — to disaster relief efforts for the 2004 tsunami in Asia and 2005's Hurricane Katrina. Through our matching gifts program, Sun and our employees donated \$1.2 million to aid victims of the tsunami and another \$1.8 million to aid victims of Hurricane Katrina.

In addition to monetary support, Sun employees were on the ground in Lafayette, Louisiana immediately in the wake of Hurricane Katrina to donate their labor — together with Sun equipment and related network infrastructure — so that those affected could search for missing loved ones, access email and voicemail, and connect with friends and relatives from the evacuee center in the Cajundome. Sun technicians also assisted businesses in the region in bringing their enterprises back online.

Sun Employees Giving Their Time and Talents

Volunteerism has always been a core value of the Sun Microsystems employee base. Our Worldwide Volunteer Week in April is an industry benchmark.

Perhaps the best known volunteer program is Net Days, founded in 1995 by Sun's Chief Scientist John Gage. Net Days was an initiative that mobilized volunteers to bring the network infrastructure — and what was then called the Information Super Highway — to schools. During the nearly decade-long run of that program, thousands of Sun employee volunteers invested their Saturday afternoons in wiring schools around the world and providing teacher training as part of the initiative.

Volunteer “sweat equity” has been an added benefit of some of the Sun Foundation's technology grants: Sun Ray systems and StarOffice software grants have been coupled with 30,000 volunteer hours.

UN Global Youth Leadership Program

Our employees have demonstrated that taking on the digital divide is not only about technology transfer, it is also about knowledge transfer. In October 2006, hundreds of Sun employees from 14 countries stepped forward to participate in a year-long volunteer mentor program that paired some of our best and brightest employees in a one-on-one mentoring relationship with delegates to the UN Global Youth Leadership Summit.

The Summit invites one young man and one young woman from each nation in the world to come together to address the Millennium Development Goals. The program allows Sun

employees to extend a hand of partnership across geographies and generations to reach out to these young people as they grapple with some of the world's most challenging issues. The aim is to share private-sector disciplines in ways that help fuel momentum, maximize impact, and achieve ongoing, measurable results.

The engagement model for this interaction is the network. Mentors and delegates use an online tool to collaborate and make progress on established learning goals as this program runs its course.

Granting Extraordinary Wishes

In 2005 and 2006, Sun donated its technology and support to the prestigious Technology, Entertainment, and Design (TED) prize recipients.

Sun supported 2005 TED Prize winner Bono in his wish to raise 1 million voices to join the ONE Campaign effort to end extreme poverty and HIV/AIDS in Africa. The campaign doubled its goal, as more than 2 million people enlisted by using SMS or text messaging through a solution powered by Sun to establish an initial link between the fan and the ONE Campaign.

In 2006, TED Prize recipient Cameron Sinclair, executive director and cofounder of Architecture for Humanity, requested a means to allow architects, nongovernmental organizations (NGOs), and communities to collaborate on generating and implementing innovative housing solutions worldwide. Sun is providing the online platform that will facilitate collaboration and sharing of designs, and will use advanced technology to simulate geographic/seismic, political/cultural, and financial ramifications of the designs.

COLLABORATING ACROSS THE SPECTRUM

Sun is a *systems* company, and we collaborate across the spectrum, participating in standards organizations in every area of our business. We dedicate significant resources to hundreds of standards efforts that address numerous technical and industry issues. And we do this because we believe that collective knowledge and action is a far more robust and viable way of planning the future of the IT industry.

Sun's technology development and product history is proof of our core belief in open standards. TCP/IP, NFS, OpenOffice, LDAP, XML, the Liberty Alliance, and now Java are just a few of the significant standards that Sun has helped bring to the world. Our commitment to collaboration and interoperability runs deep. We believe that in the end, the only standard worth supporting is an open standard.

Sun plays an active role in more than 200 standards organizations, including:

- ICT Standards Board
- Information Security Forum
- Intellectual Property Owners Association
- InterNational Committee for Information Technology Standards
- International Financial Exchange
- International Multimedia Teleconferencing Consortium
- International Organization for Standardization
- Internet Engineering Task Force
- Java Community Process
- Network Processing Framework
- Open Knowledge Initiative
- Open Mobile Alliance
- Open Source Development Lab
- Organization for the Advancement of Structured Information Standards
- Standard Performance Evaluation Corporation
- Standards for Technology in Automotive Retail

Sun is a company that believes strongly in technical innovation, sharing technologies, and enabling greater participation for everyone and everything on the network. These beliefs are evident in new technology we create, every product we ship, and every service we deliver. You can learn more about Sun at sun.com. To gain a unique insight through executive perspectives, visit sun.com/aboutsun.

ADDITIONAL INFORMATION

Media Resources

For the latest news and information on Sun, go to sun.com/aboutsun/media.

Investor Resources

Sun's common stock is traded on the NASDAQ Stock Market under the symbol SUNW. For stockholder information, visit our Investor Relations page at sun.com/aboutsun/investor.

- **The Calvert Social Index** is a broad-based, rigorously constructed benchmark for measuring the performance of large, US-based socially responsible companies.
- **Domini 400 Social Index** from KLD Research & Analytics, Inc. is a float-adjusted market capitalization-weighted common stock index modeled on the S&P 500 Index.
- **Ethibel Sustainability Index** provides a comprehensive perspective on the financial performance of the world's leading companies in terms of sustainability for institutional investors, asset managers, banks, and retail investors.
- **FTSE4Good Index Series** is designed to measure the performance of companies that meet globally recognized corporate responsibility standards and to facilitate investment in those companies.

GRI Guidelines

Sun used the Global Reporting Initiative (GRI) sustainability reporting guidelines as a resource in the development of this report. We strive to more closely align our content with the GRI guidelines in future reports.

Questions, comments, feedback?

Share it with us at csr@sun.com



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