

Company Registration No. 01624297

**MICROSOFT LIMITED**

**Report and Financial Statements  
Year ended 30 June 2016**



**MICROSOFT LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2016**

**CONTENTS**

	<b>Page number</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic report</b>	<b>3</b>
<b>Directors' report</b>	<b>4</b>
<b>Directors' responsibilities statement</b>	<b>6</b>
<b>Independent auditor's report</b>	<b>7</b>
<b>Profit and Loss Account and Other Comprehensive Income</b>	<b>8</b>
<b>Balance Sheet</b>	<b>9</b>
<b>Statement of Changes in Equity</b>	<b>10</b>
<b>Notes to the Financial Statements</b>	<b>11</b>

**MICROSOFT LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2016**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

K R Dolliver  
B O Orndorff  
M Van Der Bel resigned 3 October 2016  
C H Rose appointed 1 September 2016

**SECRETARY**

Reed Smith Corporate Services Limited

**REGISTERED OFFICE**

Microsoft Campus  
Thames Valley Park  
Reading  
Berkshire  
RG6 1WG

**BANKERS**

Citibank, N.A.  
PO Box 449  
Riverdale House  
Molesworth Street  
SE13 7EU

**SOLICITORS**

Reed Smith LLP  
Beaufort House  
15 St Botolph Street  
London  
EC3A 7EE

Olswang Solicitors  
90 High Holborn  
London  
WC1V 6XX

**MICROSOFT LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2016**

**OFFICERS AND PROFESSIONAL ADVISERS (continued)**

**SOLICITORS (continued)**

Osborne Clark  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1AX

**AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Deloitte House  
Station Place  
Cambridge  
UK  
CB1 2FP

## **MICROSOFT LIMITED**

### **STRATEGIC REPORT**

The directors present their strategic report for the year ended 30 June 2016.

#### **ACTIVITIES**

The company's principal activity continues to be marketing and support for systems, devices and applications software for business, professional and home use, including operating systems, network products, languages and applications. The principal area of business activity is the United Kingdom.

#### **BUSINESS REVIEW**

The primary purpose of the company is to provide marketing, research and support services to other group companies. Turnover for the year amounted to £956m (2015: £969m) with a profit after taxation of £86m (2015: £78m). The majority of turnover comprises commissions from other group companies for these services. In the current year turnover from other group companies decreased to £805m from £838m.

The key performance indicator for the company is based on the return on employee investment. The return on employee investment in the current year was 19% (2015: 19%). The company is committed to ensuring all employees are focused on the overall group strategy, and as such employee involvement is a key focus for the company: refer to "Employee involvement" paragraph in the Directors' Report.

Turnover is also generated through Microsoft's Managed Support and Consulting businesses. The Managed Support business provides onsite technical experts to enhance the performance of customers' investment in Microsoft's technology. The Consulting division works with customers and partners to deliver best in class, leading edge solutions to support the adoption and acceleration of deployment of Microsoft products. This represents the sales to third parties of £151m (2015: £131m).

Microsoft continues to transform its business as the productivity and platform company for the mobile-first and cloud-first world. Microsoft Limited will continue to support Microsoft Corporation's efforts in the UK market in creating new opportunities for partners, increase customer satisfaction, and improve our service excellence, business efficacy, and internal processes.

During the year the company transitioned from UK GAAP to FRS 101 and has taken full advantage of the disclosure exemptions allowed under this standard. Microsoft Limited's parent undertaking Microsoft Corporation, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. There were no material recognition or measurement differences arising on the adoption of FRS 101 (note 20).

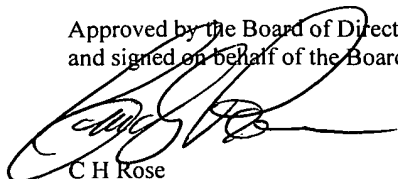
#### **STRATEGY, OBJECTIVES AND BUSINESS MODEL**

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2016, which are publicly available. Microsoft Limited's business model is to provide marketing and support services to Microsoft's UK customer base.

#### **RISKS AND UNCERTAINTIES**

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. Their performance continues to be strong and there is not considered to be a significant risk to the company's continuing profitability. The company has no significant borrowings or foreign exchange exposure. The company's principal financial assets are bank balances and cash, trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Approved by the Board of Directors  
and signed on behalf of the Board



C H Rose  
Director  
15 December 2016

## **MICROSOFT LIMITED**

### **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

#### **DIVIDENDS**

The directors approved a dividend for the year of £115.0m (2015: £224.0m).

#### **GOING CONCERN**

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing the financial statements.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

#### **RISKS AND UNCERTAINTIES**

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. These are detailed in the Strategic Report.

#### **FUTURE PROSPECTS**

The company will continue to support other group companies and in view of the current economic climate, the board is looking forward to sustaining the level of revenue and profits in the following years.

#### **DIRECTORS**

The directors who served during the year and up to the date of this report unless otherwise stated are shown on page 1.

#### **EMPLOYEE INVOLVEMENT**

The directors ensure that the employees are informed of any significant matters affecting them as employees. Employees are encouraged to discuss with management factors affecting the company, about which they are concerned.

The involvement of employees in business performance is encouraged through an employee share purchase plan. This scheme enables employees to purchase shares in Microsoft Corporation, the ultimate parent company, at 90% of their market value.

#### **EMPLOYMENT OF DISABLED PERSONS**

The company values diversity and sees equal opportunity as making the best use of the talents of all employees and potential employees. As such it is the company's policy to give full and fair consideration to applications for employment by disabled persons, bearing in mind the abilities of the applicant concerned. The company will not tolerate discrimination in the workplace and aims to ensure that each employee feels valued, and has the opportunity to contribute fully to the success of the company.

The company's general policy on training and promotion is to fit the qualifications and potential of each member of its staff to the appropriate job and career in the business. This policy is applied to disabled persons in the same way as to other staff.

In the event of an employee becoming disabled, the company endeavours to continue their employment, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

**MICROSOFT LIMITED**

**DIRECTORS' REPORT (continued)**

**AUDITOR**

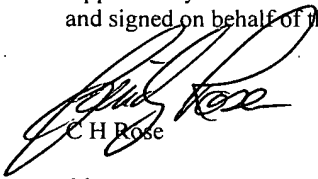
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. The company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board of Directors  
and signed on behalf of the Board



C H Rose

Director  
15 December 2016

## **MICROSOFT LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT LIMITED**

We have audited the financial statements of Microsoft Limited for the year ended 30 June 2016 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

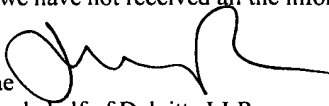
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

  
Julian Rae  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge  
UK  
15 December 2016

**MICROSOFT LIMITED**

**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME**

Year ended 30 June 2016

	Note	2016 £'000	2015 restated £'000
<b>TURNOVER</b>	<b>2</b>	956,055	969,320
Cost of sales		(120,181)	(107,511)
<b>GROSS PROFIT</b>		835,874	861,809
Distribution costs		(153,340)	(170,013)
Administrative expenses		(575,644)	(597,170)
Other income		2,496	1,026
<b>OPERATING PROFIT</b>	<b>3</b>	109,386	95,652
Interest receivable and similar income	<b>5</b>	1,799	2,616
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		111,185	98,268
Tax on profit on ordinary activities	<b>6</b>	(25,544)	(20,030)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		85,641	78,238
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		85,641	78,238

All amounts derive from continuing operations.

There was no other comprehensive income or expenses other than those shown in the Profit and Loss Account and Other Comprehensive Income above.

**MICROSOFT LIMITED**

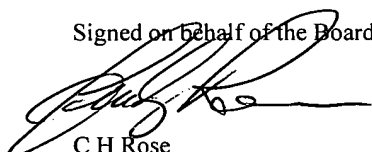
**BALANCE SHEET**

**30 June 2016**

	Note	2016 £'000	2015 restated £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	39,026	34,673
		<u>39,026</u>	<u>34,673</u>
<b>CURRENT ASSETS</b>			
Debtors	9	384,039	381,999
Deferred tax asset	11	14,692	16,321
Corporation tax		971	-
Cash at bank and in hand		-	4
		<u>399,702</u>	<u>398,324</u>
<b>CREDITORS</b>			
Creditors: amounts falling due within one year	10	(240,854)	(239,306)
Corporation tax		-	(2,368)
		<u>(240,854)</u>	<u>(241,674)</u>
<b>NET CURRENT ASSETS</b>		<u>158,848</u>	<u>156,650</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>197,874</u>	<u>191,323</u>
<b>CREDITORS: amounts falling due in more than one year</b>			
Provisions for liabilities	12	(14,618)	(15,895)
<b>NET ASSETS</b>		<u>183,256</u>	<u>175,428</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	15	15
Profit and loss account		<u>183,241</u>	<u>175,413</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>183,256</u>	<u>175,428</u>

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on 15 December 2016.

Signed on behalf of the Board of Directors



C H Rose  
Director

**MICROSOFT LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total equity £'000</b>
Balance at 1 July 2014 restated	15	285,278	285,293
<b>Total comprehensive income for the year</b>			
Profit or loss for the year	-	78,238	78,238
Total comprehensive income for the year	-	78,238	78,238
Equity settled share based payments transactions	-	3,339	3,339
Share based payment - contribution received	-	32,511	32,511
Dividends	7	(223,953)	(223,953)
Total contributions by and distributions to owners	-	(188,103)	(188,103)
<b>Balance at 30 June 2015 restated</b>	<b>15</b>	<b>175,413</b>	<b>175,428</b>

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total equity £'000</b>
Balance at 1 July 2015	15	175,413	175,428
<b>Total comprehensive income for the year</b>			
Profit or loss for the year	-	85,641	85,641
Total comprehensive income for the year	-	85,641	85,641
Equity settled share based payments transactions	-	2,978	2,978
Share based payment - contribution received	-	34,247	34,247
Dividends	7	(115,038)	(115,038)
Total contributions by and distributions to owners	-	(77,813)	(77,813)
<b>Balance at 30 June 2016</b>	<b>15</b>	<b>183,241</b>	<b>183,256</b>

## **MICROSOFT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

#### **1. ACCOUNTING POLICIES**

Microsoft Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 July 2014.

The Company's ultimate parent undertaking, Microsoft Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of Microsoft Corporation are prepared in accordance with US generally accepted accounting principles (GAAP) and are available to the public and may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy, (see note 20); and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Microsoft Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

## **MICROSOFT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

#### **1. ACCOUNTING POLICIES (continued)**

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 July 2014 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20.

##### **Measurement convention**

The financial statements are prepared on the historical cost basis.

##### **Going concern**

The company had a profit after tax in the year of £85,641k (2015: 78,238k) and was in a net asset position of £183,256k (2015: 175,428k).

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing the financial statements.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

##### **Turnover**

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a ratable proportion of the total contract value.

Turnover includes commission income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

##### **Tangible fixed assets**

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight-line basis over their expected useful lives at the following rates:

Office equipment, furniture and fittings	33% per annum
Computer and technical equipment	33% to 100% per annum
Leasehold improvements	over the period of the lease

Residual value is calculated on prices prevailing at the date of acquisition.

##### **Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Lease incentives are considered as part of the overall cost of the lease and amortised straight line over the period of the lease.

##### **Provisions**

Provisions are recognised when the company has a present obligation in respect of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material.

## **MICROSOFT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 30 June 2016**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Share-based payments**

The Microsoft group operates a number of share-based payment arrangements.

Where the Company's parent Company has granted rights to its equity instruments to employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. In such instances a capital contribution is recognised to the extent that the Company is not recharged by its parent.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Refer to note 15 for details of how the fair value of awards is determined.

##### **Pension scheme**

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

##### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

##### **Financial instruments**

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provision of the instrument. Because of their short term nature the carrying amount of trade receivables and trade payables approximates their fair value. Trade receivables and payables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment. Cash and cash equivalents include cash at bank and in hand.

## MICROSOFT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

#### 1. ACCOUNTING POLICIES (continued)

##### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors believe there are no critical accounting judgements and no key sources of estimation uncertainty.

##### Foreign currencies

Transactions in foreign currencies during the year are translated into sterling at the average rate ruling for the month of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. All exchange gains and losses are taken to the profit and loss account.

#### 2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the year. Turnover is attributable to the provision of marketing and support services to group companies. It includes commission receivable by the company under agreements with a fellow subsidiary.

	2016 £'000	2015 £'000
Sales to third parties	151,120	130,981
Commission within the group	804,935	838,339
	<u>956,055</u>	<u>969,320</u>

#### 3. OPERATING PROFIT

	2016 £'000	2015 £'000
<b>Operating profit is stated after charging/(crediting)</b>		
Rentals under operating leases		
- other operating leases	23,174	28,464
Depreciation - owned assets	16,132	20,671
Foreign exchange (gain) or loss	70	(102)
Rental income	(2,496)	(1,026)
Auditor's remuneration:		
- audit services	<u>116</u>	<u>104</u>



# **MICROSOFT LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

### **4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
<b>Average number of persons employed (including directors)</b>		
Sales and distribution	2,880	2,940
Administration	224	201
	<u>3,104</u>	<u>3,141</u>

### **4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs (including directors)</b>		
Wages and salaries	384,998	369,605
Social security costs	39,266	38,662
Pension	31,392	30,626
	<u>455,656</u>	<u>438,893</u>

Only one director (2015: one) received remuneration through the Company. All other directors did not receive any remuneration in respect of qualifying services as directors of the Company in the current period or in the prior period and do not have any employment contracts with the Company.

Details of the remuneration of the highest and only paid director of the company are as follows. Remuneration in respect of qualifying services £678k (2015: £672k) and company contributions to money purchase pension schemes £25k (2015: £22k).

One director received shares under a long-term incentive scheme and one director has benefits accruing under a money purchase pension scheme.

At 30 June 2016 there were no pension contributions outstanding (2015: £Nil).

The share-based payment charge for the year was £34.2m (2015: £32.5m), refer to note 15.

### **5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from parent company	11	28
Interest receivable from fellow group undertakings	1,788	2,588
	<u>1,799</u>	<u>2,616</u>

# **MICROSOFT LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

### **6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
United Kingdom corporation tax	23,101	23,905
Adjustment in respect of prior years	923	(608)
	<hr/>	<hr/>
Total current tax	24,024	23,297
Deferred tax - current year	1,289	(3,166)
Deferred tax- prior year adjustment	231	(101)
	<hr/>	<hr/>
Total tax charge for the year	<u>25,544</u>	<u>20,030</u>

#### **Reconciliation to total tax charge:**

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.00% (2015: 20.75%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Profit on ordinary activities before tax	111,185	98,268
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.75%)	22,237	20,391
Effects of:		
Depreciation on non-qualifying assets	689	823
Permanent adjustments	511	1,176
Short-term timing differences	1,295	88
Share schemes	(342)	(1,739)
Prior year adjustment	1,154	(709)
	<hr/>	<hr/>
Total tax charge	<u>25,544</u>	<u>20,030</u>

The standard rate of tax used in the above reconciliation is the average United Kingdom corporation tax rate for the period concerned as the vast majority of taxable income arises there.

In October 2012 Microsoft Limited entered into an Advance Pricing Agreement with the respective tax authorities of the United Kingdom and the Republic of Ireland defining and agreeing the appropriate compensation to be paid to Microsoft Limited for the services it renders to group companies. This agreement covers Microsoft Limited's fiscal years 2011 through to 2017.

# MICROSOFT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

### 7. DIVIDENDS

	2016 £'000	2015 £'000
Paid - £7,669 per equity ordinary share (2015: £14,930 per equity ordinary share)	115,038	223,953

### 8. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improvements £'000	Total £'000
<b>Cost</b>				
At 1 July 2015	31,541	58,504	34,738	124,783
Additions	1,263	16,299	17,425	34,987
Disposals	(14,709)	(113)	(72)	(14,894)
Transfers to other group companies	(726)	(18,594)	(1,050)	(20,370)
At 30 June 2016	17,369	56,096	51,041	124,506
<b>Accumulated depreciation</b>				
At 1 July 2015	27,969	46,846	15,295	90,110
Charge for the year	3,319	9,848	2,965	16,132
Disposals	(14,707)	(343)	(72)	(15,122)
Transfers to other group companies	13	(5,639)	(14)	(5,640)
At 30 June 2016	16,594	50,712	18,174	85,480
<b>Net book value</b>				
At 30 June 2016	775	5,384	32,867	39,026
At 30 June 2015	3,572	11,658	19,443	34,673

### 9. DEBTORS

	2016 £'000	2015 £'000
Trade debtors	57,357	41,839
Amounts owed by fellow group undertakings	307,433	309,813
Other debtors	495	9,631
Prepayments and accrued income	18,754	20,716
	384,039	381,999

Interest is received on amounts owed by group undertakings, except short-term trading balances, using a Reuter's 12-month interest rate at 0.6725% (2015: 0.6900%).

Intercompany debtors are repayable on demand. All amounts are due within one year.

**MICROSOFT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Bank overdraft	209	-
Trade creditors	25,933	21,506
Other creditors	6,697	1,377
Other taxation and social security	13,985	13,457
Accruals	110,678	126,782
Deferred income	83,352	76,184
	<u>240,854</u>	<u>239,306</u>

Interest is paid on amounts owed to group undertakings, except short-term trading balances, using a Reuter's 12-month interest rate at 0.6725% (2015: 0.6900%).

**11. DEFERRED TAX**

The deferred tax asset consists of the following amounts:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Timing differences in respect of capital allowances	4,419	4,340
Share-based payments	10,273	10,608
Short term timing differences	-	1,373
	<u>14,692</u>	<u>16,321</u>

	<b>£'000</b>
Balance at 1 July 2015	16,321
Charged to the profit and loss in the year	(1,289)
Charged to equity in the year	(109)
Prior year deferred tax adjustment	(231)
Balance at 30 June 2016	<u>14,692</u>

The Finance Act 2016, which provides for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2016, to 19% effective from 1 April 2017 and 17% effective from 1 April 2020 was substantively enacted on 15 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.

# **MICROSOFT LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 30 June 2016**

### **12. PROVISIONS FOR LIABILITIES**

	<b>Dilapidations £'000</b>	<b>Onerous leases £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Balance at 1 July 2015	4,856	172	10,867	15,895
Charged to the profit and loss in the year	1,256	-	-	1,256
Utilised in the year	(2,007)	(23)	(503)	(2,533)
Balance at 30 June 2016	<u>4,105</u>	<u>149</u>	<u>10,364</u>	<u>14,618</u>

The provision for dilapidations is being built up to provide for potential charges at the end of the lease period on rental properties. On average the leases expire within 5 to 10 years of the year end date.

The onerous lease provision is being built up to provide for rent expenses payable under Operating Lease Contracts for the properties which will not be used, sub-let or surrendered in the foreseeable future. The properties are being actively marketed and it is the company's intention to utilise this provision within the next year.

Other provisions relate to National Insurance Contributions (NIC) which will become payable on the vesting of share awards. The share awards vest over a 5 year period. Employees do not make any payment for the share awards. The provision has been calculated based on the share price at the balance sheet date of \$51.17 and the rate of NIC is 13.8%.

### **13. CALLED UP SHARE CAPITAL**

	<b>2016 £'000</b>	<b>2015 £'000</b>
<b>Authorised, called up, allotted and fully paid</b>		
15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

### **14. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>Land and buildings</b>	
	<b>2016 £'000</b>	<b>2015 £'000</b>
Operating leases which expire:		
Within 1 year	16,219	20,218
Between 2 and 5 years inclusive	58,024	59,981
After 5 years	50,455	64,784
	<u>124,698</u>	<u>144,983</u>

## MICROSOFT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

#### 15. SHARE BASED PAYMENTS

The group has an equity settled share award scheme whereby employees are awarded shares in Microsoft Corporation. These shares vest equally on the first to fifth anniversary of the award date. The employees do not make any payment for these shares. Awards are forfeited if the employee leaves the group before the relevant anniversary date of those awards has been reached.

Details of the share awards outstanding during the year are as follows:

	2016	2015
Number of share awards	3,612,999	4,176,466
Outstanding at beginning of year	4,176,466	4,839,020
Granted during the year	1,753,648	1,435,395
Forfeited during the year	(827,872)	(450,503)
Exercised during the year	(1,489,243)	(1,647,446)
Outstanding at the end of the year	<u>3,612,999</u>	<u>4,176,466</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2016 was \$46.35 (2015: \$45.33).

The unvested awards as at 30 June 2016 had a weighted average remaining contractual life of 3.02 years (2015: 2.94 years).

In both 2016 and 2015 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £58.5m (2015: £41.0m).

The fair values of awards granted is based upon the market price of the underlying share as of the date of the grant, reduced by the present value of estimated future dividends.

The company recognised total expenses of £31.9m and £29.5m in relation to share award transactions during 2016 and 2015 respectively.

Please refer to the Microsoft Corporation Form 10-K for details of the model and the assumptions used.

#### Shared Performance Share Awards

The group has a Shared Performance Share Awards ("SPSA") scheme whereby employees are granted shares in Microsoft Corporation if the group meets specified performance targets. A quarter of each award vests each year between one and four years after the end of each performance measurement period.

The fair value of the SPSAs is measured as the market price of the underlying share as of the date of the grant, reduced by the present values of estimated future dividends.

The company recognised total expenses of £1,838,851 and £2,523,838 related to SPSA transactions during 2016 and 2015 respectively.

#### Employee share purchase plan

The company recognised a further £466,464 (2015: £449,243) relating to the employee share purchase plan during the year.

## **MICROSOFT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

#### **16. CONTINGENT LIABILITIES**

The company stands as guarantor for the lease obligation between Lionhead Studios Limited and the University of Surrey. The potential contingent liability is £664,110 (2015: £664,110). In addition, the company stands as guarantor pursuant to the Licence for Alterations in respect of the same properties.

#### **17. SUBSEQUENT EVENTS**

No material events have taken place subsequent to the year end.

#### **18. ULTIMATE PARENT UNDERTAKING**

The immediate parent company and controlling party is Microsoft Luxembourg International SARL. The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available on written request from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

#### **19. RELATED PARTY TRANSACTIONS**

In accordance with FRS 101, transactions with other group undertakings within, and investee related parties of, the Microsoft Corporation group have not been disclosed in these financial statements.

#### **20. EXPLANATION OF TRANSITION TO FRS 101**

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in the preparation of an opening FRS 101 balance sheet at 1 July 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**MICROSOFT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 30 June 2016

**20. EXPLANATION OF TRANSITION TO FRS 101 (continued)**

**Reconciliation of equity**

	Note	1 July 2014			30 June 2015		
		UK GAAP	Effect of transition to FRS 101	FRS 101	UK GAAP	Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>							
Tangible assets	8	37,030	-	37,030	34,673	-	34,673
		<u>37,030</u>	<u>-</u>	<u>37,030</u>	<u>34,673</u>	<u>-</u>	<u>34,673</u>
<b>CURRENT ASSETS</b>							
Debtors	9	478,654	-	478,654	381,999	-	381,999
Deferred tax asset	11	8,852	4,190	13,042	11,879	4,442	16,321
Cash at bank and in hand		-	-	-	4	-	4
		<u>487,506</u>	<u>4,190</u>	<u>491,696</u>	<u>393,882</u>	<u>4,442</u>	<u>398,324</u>
<b>CREDITORS</b>							
Creditors: amounts falling due within one year	10	(221,818)	(5,667)	(227,485)	(232,438)	(6,868)	(239,306)
Corporation Tax		<u>(1,655)</u>	<u>-</u>	<u>(1,655)</u>	<u>(2,368)</u>	<u>-</u>	<u>(2,368)</u>
		<u>(223,473)</u>	<u>(5,667)</u>	<u>(229,140)</u>	<u>(234,806)</u>	<u>(6,868)</u>	<u>(241,674)</u>
<b>NET CURRENT ASSETS</b>		<u>264,032</u>	<u>(1,476)</u>	<u>262,556</u>	<u>159,076</u>	<u>(2,426)</u>	<u>156,650</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>301,063</u>	<u>(1,476)</u>	<u>299,587</u>	<u>193,749</u>	<u>(2,426)</u>	<u>191,323</u>
<b>CREDITORS: amounts falling due in more than one year</b>							
Provisions for liabilities	12	(14,294)	-	(14,294)	(15,895)	-	(15,895)
<b>NET ASSETS</b>		<u>286,769</u>	<u>(1,476)</u>	<u>285,293</u>	<u>177,854</u>	<u>(2,426)</u>	<u>175,428</u>
<b>CAPITAL AND RESERVES</b>							
Called up share capital	13	15	-	15	15	-	15
Profit and loss account		<u>286,754</u>	<u>(1,476)</u>	<u>285,278</u>	<u>177,839</u>	<u>(2,426)</u>	<u>175,413</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>286,769</u>	<u>(1,476)</u>	<u>285,293</u>	<u>177,854</u>	<u>(2,426)</u>	<u>175,428</u>



**MICROSOFT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2016**

**20. EXPLANATION OF TRANSITION TO FRS 101 (continued)**

Reconciliation of profit for year ended 30 June 2015

	Note	UK GAAP	2015 Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000
<b>TURNOVER</b>	2	969,320	-	969,320
Cost of Sales		(107,511)	-	(107,511)
<b>GROSS PROFIT</b>		861,809	-	861,809
Distribution Costs		(170,013)	-	(170,013)
Administrative expenses (net)		(595,969)	(1,201)	(597,170)
Other income		1,026	-	1,026
<b>OPERATING PROFIT</b>	3	96,853	(1,201)	95,652
Interest receivable and similar income	5	2,616	-	2,616
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		99,469	(1,201)	98,268
Tax on profit on ordinary activities	6	(16,943)	(3,087)	(20,030)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		82,526	(4,288)	78,238

**NOTES TO THE RECONCILIATION OF PROFIT AND LOSS**

In preparing its FRS 101 balance sheet, the Company has adjusted amounts relating to employee benefits in accordance with IAS19. An accrual for employee vacation has been included at 30 June 2016 based on days earned but not taken. The tax has also been recalculated to take account of this adjustment.

The current and deferred tax on shares has also been recalculated to reflect the correct accounting practice under FRS101.