

Registration number: 01624297

Microsoft Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2019



Microsoft Limited

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Microsoft Limited

Company Information

Directors	Keith R Dolliver Benjamin O Orndorff Cindy H Rose
Company secretary	Reed Smith Corporate Services Limited
Registered office	Microsoft Campus Thames Valley Park Reading Berkshire RG6 1WG
Solicitors	Reed Smith LLP Beaufort House 15 St Botolph Street London EC3A 7EE
Bankers	Citibank, N.A. PO Box 449 Riverdale House Molesworth Street SE13 7EU
Auditors	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

Microsoft Limited

Strategic Report for the Year Ended 30 June 2019

The directors present their strategic report for the year ended 30 June 2019.

Principal activity

Microsoft Limited, a subsidiary of Microsoft Corporation, is engaged in distributing computer software, peripherals, and hardware to customers and to provide marketing and support services to other group companies. The principal area of business activity is the United Kingdom.

Fair review of the business

The results for the year are shown on page 12. The company recorded a profit before taxation of £167,453,000 (2018: profit before taxation of £137,533,322). The Directors feel that the Company is in a sound position for the coming period. The company maintained a strong balance sheet and had net assets at 30 June 2019 of £277,307,000 (2018: £249,287,598).

Turnover is generated from the distribution of computer software, peripherals, and hardware to customers (referred to as "Product" in Note 4), the Services business through its Managed Support and Consulting divisions, and commission income. This represents sales to third parties and intercompany commission, and increased from £1,406,802,620 (2018) to £2,110,760,000, primarily as a result of the transition to the Limited Risk Distributor (LRD) model which commenced in February 2017.

Under the LRD model the core business was expanded to include direct distribution of software and hardware for Volume Licensing and Microsoft Supply Chain. The expansion of the business is the primary cause of the material movements seen in the Balance Sheet. A new retail store was opened in London in July 2019, resulting in a Tangible Asset increase of £34 million, and stock balances of £4 million.

The key performance indicator for the company is based on return on employee investment. The return on employee investment in the current year was 28% (2018: 25%). This is calculated as a percent of total profit for the year divided by employee costs, excluding share-based payment expenses (note 8). 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.

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.

Strategy, objective 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 2019 at www.microsoft.com. Microsoft Limited's business model is expected to remain consistent as it continues to distribute computer software, peripherals, and hardware to customers and to provide marketing and support services to other group companies.

Microsoft Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

Principal 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.

Cash flow risk, credit risk, liquidity risk and market risk

Cash flow risk

Financial risk of changes in foreign currency exchange rates are mitigated by short payment terms by its ultimate parent company, Microsoft Corporation, and access to their cash pool where required. The Company does not use derivative financial instruments for speculative purposes or to hedge risks. Cash flow risk is largely mitigated due to support provided by its parent company, Microsoft Corporation.

Credit risk

The Company's principal financial assets are third party receivables and accrued income, and intercompany debtors. The Company's credit risk is primarily attributable to its third party debtors. This is not considered a significant risk as the other group companies continue to perform well.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company relies on support from its parent company, Microsoft Corporation.

Market risk

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and wider long-term market trends.

The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

Microsoft Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

Brexit

The results of operations may be affected by legislation and political developments. The company has assessed the risks associated with Brexit and the main considerations are as follows:

- 1) Cloud Services: We are not aware of any issues impacting the use of Microsoft cloud services after Brexit and will be closely monitoring the EU (Withdrawal Agreement) Bill and any further trade negotiations.
- 2) Supply chain: We have conducted a product flow map related to retail, commercial and online store flows between UK, Ireland, and other member EU states and vice versa. Furthermore, we are completing a systems readiness and digital transaction flow assessment to assure minimal disruption. We review these plans with our suppliers, distributors and logistics partners regularly. Our focus is on maintaining our high standards of services at all times for our customers and partners. We are undertaking a thorough audit of all services provisioned in the UK and currently do not see any risks associated with service levels. Given the pace of change and the lack of clarity, we will as always keep our customers top of mind should the situation change, or we anticipate disruption.
- 3) Pricing: Microsoft periodically reviews its pricing to align with market dynamics and to ensure it meets with the needs of our customers, partners, and the marketplace across the region. We make any necessary changes in response to this assessment and feedback. Many factors contribute to our ongoing assessment of local and regional market dynamics including competition, pricing, business models, local currency rates and local inflation.
- 4) Trade and Tax: Most of our products and services are exempted from WTO tariffs under the International Technology agreement signed by 29 WTO members in the Singapore 1996 WTO Ministerial Conference, therefore, we expect minimal to no disruption in trade activities.
- 5) Data protection and location of data: Microsoft's enterprise cloud contracts clearly state that as of the start of enforcement of the GDPR (May 25, 2018), Microsoft ensures that transfers of Personal Data to a third country or an international organization will be subject to appropriate safeguards and will be documented, in each case, according to applicable law including Articles 46 and 30(2) of the GDPR. Microsoft has shared its perspective on the proposed EU Withdrawal Agreement and believes that it protects the businesses of our customers and partners by helping to ensure the free flow of data across borders.

COVID-19

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. This pandemic has occurred after the company's year-end and is considered a non-adjusting post balance sheet event. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local crisis management teams have been put in place by Microsoft to monitor the COVID-19 situation closely and to anticipate and react to the evolving circumstances. To protect the health and well-being of our employees, suppliers, and customers, Microsoft have made substantial modifications to employee travel policies, implemented retail store and office closures as employees are advised to work from home, and cancelled or shifted our conferences and other marketing events to virtual-only.

Microsoft Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

The extent to which the COVID-19 pandemic impacts Microsoft going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer, business, and government spending on technology as well as customers' ability to pay for our products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including investments, receivables, and forward-looking guidance.

Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue as a going concern. Management acknowledge that these uncertain times can have a huge impact on people and organisations and keeps monitoring these uncertainties closely. Measures to contain the virus that impact us, our partners, distributors, and suppliers may further intensify these impacts and other risks. Any of these may adversely impact Microsoft's ability to:

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacenter load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacenter operations.
- Effectively manage our international operations through changes in trade practices and policies.
- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

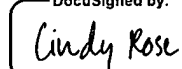
We may incur increased costs to effectively manage these aspects of our business. If we are unsuccessful it may adversely impact our revenues, cash flows, market share growth, and reputation.

Other risks

Other risks include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2019 Form 10-K.

June 2, 2020

Approved by the Board on and signed on its behalf by:

DocuSigned by:

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 Cindy H Rose
 Director

Microsoft Limited

Directors' Report for the Year Ended 30 June 2019

The directors present their report and the audited financial statements for the year ended 30 June 2019.

Dividends

The directors approved a dividend for the year of £150,000,000 (2018: £121,000,000).

Going concern

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue operating as a going concern in the foreseeable future. Management acknowledge that these unpredictable times can have a huge impact on people and organizations and keeps monitoring these uncertainties very closely.

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 directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and have given consideration to potential impacts of the COVID-19 pandemic. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

No other events occurred after the balance sheet date that would impact significantly on the financial statements.

Directors' of the company

The directors, who held office during the financial year, were as follows:

Keith R Dolliver

Benjamin O Orndorff

Cindy H Rose

Risk 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 developments

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.

Microsoft Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and Company. This is achieved through formal and informal meetings and internal communications.

In addition to direct feedback channels an annual employee survey (MS Poll) is conducted the purpose of which is to develop an understanding of employee attitudes about their experiences working at Microsoft. Managers take action based on MS Poll results to improve employee engagement and retention, which in turn drives business success.

Microsoft offers stock awards as a long-term incentive to employees, used to recognise and reward anticipated performance and future contributions.

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.

Disclosure of information to the auditors

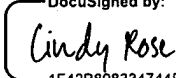
Each of the persons who is a director at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware and the director has taken all the steps that ought to have been taken as director in order to be 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 provision of the s418 of the Companies Act 2006.

Auditors

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.

June 2, 2020

Approved by the Board on and signed on its behalf by:

DocuSigned by:

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Cindy H Rose
Director

Microsoft Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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.

Microsoft Limited

Independent Auditor's Report to the Members of Microsoft Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Microsoft Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Microsoft Limited

Independent Auditor's Report to the Members of Microsoft Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Microsoft Limited

Independent Auditor's Report to the Members of Microsoft Limited (continued)

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

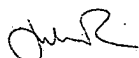
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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.



.....
Julian Rae (Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor

Abbots House
Abbey Street
Reading
United Kingdom
RG1 3BD

Date: 2 June 2020

Microsoft Limited**Profit and Loss Account for the Year Ended 30 June 2019**

	Note	2019 £ 000	2018 £ 000
Turnover	4	2,846,680	2,138,090
Cost of sales		<u>(1,969,842)</u>	<u>(1,301,431)</u>
Gross profit		876,838	836,659
Distribution costs		<u>(103,970)</u>	<u>(143,259)</u>
Administrative expenses		<u>(605,408)</u>	<u>(558,968)</u>
Operating profit		<u>167,460</u>	<u>134,432</u>
Other finance income	6	3,088	2,133
Interest receivable from group undertakings	6	1,252	969
Other finance costs	7	<u>(4,190)</u>	-
Interest payable to group undertakings	7	<u>(157)</u>	<u>(1)</u>
		<u>(7)</u>	<u>3,101</u>
Profit before tax		167,453	137,533
Tax on profit	11	<u>(34,556)</u>	<u>(28,153)</u>
Profit for the year		<u><u>132,897</u></u>	<u><u>109,380</u></u>

The notes on pages 16 to 43 form an integral part of these financial statements.

Microsoft Limited**Statement of Comprehensive Income for the Year Ended 30 June 2019**

	Note	2019 £ 000	2018 £ 000
Profit for the year		<u>132,897</u>	<u>109,380</u>
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/loss on defined benefit pension schemes before tax	22	(16,071)	19,202
Income tax effect	22	<u>2,670</u>	<u>(3,648)</u>
		<u>(13,401)</u>	<u>15,554</u>
Total comprehensive income for the year		<u><u>119,496</u></u>	<u><u>124,934</u></u>

The above results were derived from continuing operations.

The notes on pages 16 to 43 form an integral part of these financial statements.

Microsoft Limited

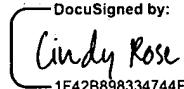
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Balance Sheet as at 30 June 2019

	Note	30 June 2019 £ 000	30 June 2018 £ 000
Fixed Assets			
Tangible assets	13	71,533	36,666
Investments	14	61	-
Non current receivables	16	107,897	112,624
		<u>179,491</u>	<u>149,290</u>
Current assets			
Stocks	15	3,864	-
Debtors	16	2,366,846	1,545,139
Cash at bank and in hand		1,142	-
Deferred tax assets	11	2,169	10,556
		<u>2,374,021</u>	<u>1,555,695</u>
Creditors: Amounts falling due within one year	17	<u>(2,340,324)</u>	<u>(1,536,271)</u>
Net current assets		<u>33,697</u>	<u>19,424</u>
Total assets less current liabilities		213,188	168,714
Creditors: Amounts falling due after more than one year	18	(3,438)	(4,278)
Provisions for liabilities	20	<u>(22,795)</u>	<u>(19,553)</u>
Net assets excluding pension asset/(liability)		186,955	144,883
Net pension asset	22	<u>90,352</u>	<u>104,405</u>
Net assets		<u>277,307</u>	<u>249,288</u>
Capital and reserves			
Called up share capital	21	15	15
Profit and loss account		<u>277,292</u>	<u>249,273</u>
Shareholders' funds		<u>277,307</u>	<u>249,288</u>

June 2, 2020

Approved by the Board on and signed on its behalf by:

DocuSigned by:

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 Cindy H Rose
 Director

The notes on pages 16 to 43 form an integral part of these financial statements.

Microsoft Limited**Statement of Changes in Equity for the Year Ended 30 June 2019**

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2018	15	249,273	249,288
Profit for the year	-	132,897	132,897
Actuarial gain/loss on defined benefit pension schemes before tax (note 22)	-	(16,071)	(16,071)
Income tax effect	-	2,670	2,670
Total comprehensive income	-	119,496	119,496
Dividends (note 12)	-	(150,000)	(150,000)
Share based payment - contribution received (note 23)	-	49,443	49,443
Income tax effect of share based payments transactions	-	8,248	8,248
Deferred tax on Pension	-	(281)	(281)
Deferred tax on Share based payments	-	1,113	1,113
At 30 June 2019	15	277,292	277,307

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2017	15	196,343	196,358
Profit for the year	-	109,380	109,380
Actuarial gain/loss on defined benefit pension schemes before tax (note 23)	-	19,202	19,202
Income tax effect	-	(3,648)	(3,648)
Total comprehensive income	-	124,934	124,934
Dividends (note 12)	-	(121,000)	(121,000)
Share based payment - contribution received (note 23)	-	40,981	40,981
Income tax effect of share based payments transactions	-	6,103	6,103
Deferred tax on Pension	-	489	489
Deferred tax on Share based payments	-	1,423	1,423
At 30 June 2018	15	249,273	249,288

The notes on pages 16 to 43 form an integral part of these financial statements.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019

1 General information

Microsoft Limited ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. 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. The group accounts of Microsoft Corporation can be obtained as set out in Note 25.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

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

Summary of disclosure exemptions

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 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;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures of transactions with a management entity that provides key management personnel services to the company;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 25.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 July 2018 have had a material effect on the financial statements.

The company applied IFRS 9 for the first time in the current year. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The company has applied IFRS 9 retrospectively, with the initial application date of 1 July 2018.

There was no impact on the income statement or the balance sheet from the adoption of IFRS 9 and it was adopted without restating comparative information. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 and to the comparative period.

The Company performed a detailed analysis of its business model for managing financial assets as well as analysing their contractual cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 at 1 July 2018:

			IAS 39 Carrying Amount £000	IFRS 9 Carrying Amount £000
<i>Financial Assets</i>	IAS 39 Classification	IFRS 9 Classification		
Trade debtors	Amortised cost	Amortised cost	496,601	496,601
Amounts owed by group undertakings	Amortised cost	Amortised cost	246,700	246,700
Accrued income	Amortised cost	Amortised cost	121,919	121,919
Non-current receivables	Amortised cost	Amortised cost	112,624	112,624

Financial Liabilities

There were no changes to the classification and measurement of financial liabilities.

Measurement convention

The financial statements are prepared on the historical cost basis.

Microsoft Limited**Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)****2 Accounting policies (continued)****Going concern**

The financial statements are prepared on a going concern basis. The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully. 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 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.

Revenue

The principal activity of the Company during the year was the licensing and distribution of computer software, peripherals, and hardware. The Company now transacts directly with customers in the British market and records revenue and related costs from the Volume Licensing, Online (Business to Consumer), Microsoft Business Solutions ("MBS") and Hardware product lines of business. Other activities are the Managed Support business, which provides onsite technical experts to enhance the performance of customers' investment in Microsoft's technology, and commission income from the marketing of computer software, peripherals and video game consoles.

Product Revenue and Service and Other Revenue

Product revenue includes sales from operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; video games; and hardware such as PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories. Service and other revenue includes sales from cloud-based solutions that provide customers with software, services, platforms, and content such as Microsoft Office 365, Microsoft Azure, Microsoft Dynamics 365, and Xbox Live; solution support; and consulting services.

Revenue Recognition

Revenue is recognised upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognised net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Nature of Products and Services

Licences for on-premises software provide the customer with a right to use the software as it exists when made available to the customer. Customers may purchase perpetual licences or subscribe to licences, which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the software. Revenue from distinct on-premises licences is recognised upfront at the point in time when the software is made available to the customer. In cases where we allocate revenue to software updates, primarily because the updates are provided at no additional charge, revenue is recognised as the updates are provided, which is generally rateably over the estimated life of the related device or licence.

Certain volume licensing programs, including Enterprise Agreements, include on-premises licences combined with Software Assurance ("SA"). SA conveys the rights to new software and upgrades released over the contract period and provides support, tools, and training to help customers deploy and use products more efficiently. On-premises licences are considered distinct from SA and therefore separate performance obligations when sold with SA. Revenue allocated to SA is generally recognised rateably over the contract period as customers simultaneously consume and receive benefits, given that SA comprises distinct goods or services that are satisfied over time.

Cloud services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on either a subscription or consumption basis. Revenue related to cloud services provided on a subscription basis is recognised rateably over the contract period. Revenue related to cloud services provided on a consumption basis, such as the amount of storage used in a period, is recognised based on the customer's utilisation of such resources. When cloud services require a significant level of integration and interdependency with software and the individual components are not considered distinct, all revenue is recognised over the period in which the cloud services are provided.

Our hardware is generally highly dependent on, and interrelated with, the underlying operating system and cannot function without the operating system. In these cases, the hardware and software licence are accounted for as a single performance obligation and revenue is recognised at the point in time when ownership is transferred to resellers or directly to end-customers through retail stores and online marketplaces.

Refer to Note 4 - Revenue from contracts with customer for further information, including revenue by significant product and service offerings. For more information on our contract balances see Note 4 contract balances.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Microsoft Limited**Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)****2 Accounting policies (continued)****Tax**

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value. The Company performs an impairment analysis on an annual basis.

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 3 years

Computer and technical equipment 1 - 3 years

Leasehold improvements over the period of the lease

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

Investments

Investments in subsidiary undertakings are stated at cost, less any provision for impairment in value. The company performs an impairment analysis on an annual basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension asset.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit or loss.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Share based payments

The company has adopted IFRS2 in respect of share awards granted by the parent company, Microsoft Corporation, to the employees of the company. The estimated fair value of equity-based instruments are recognised as an expense over the vesting period with a corresponding credit to retained earnings. 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 and adjusted for the effect of non-market based vesting conditions. The fair value of share awards is determined on the date of grant, based on the parent company's stock price and less the dividends that will not be received during the vesting period.

Financial instruments

Initial recognition

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Classification and measurement

Financial assets

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

Financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at amortised cost.

Financial assets at amortised cost

This category is the most relevant to the company. The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The company's financial assets at amortised cost includes trade receivables, and balances with other group companies.

Financial assets at fair value through other comprehensive income (FVTOCI)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Impairment of financial assets

Measurement of Expected Credit Losses

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages under IFRS 9's general approach. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The company considers a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the company applies the simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision methodology that is based on company's historical credit loss experience adjusted following an assessment of both current and forward-looking factors specific to the debtors and the economic and political environment, as obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Balance Sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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 that the key critical accounting judgements that include sources of estimation uncertainty lie in respect of those outlined below.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue from contracts with customers

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct goods or services that should be accounted for separately versus together may require significant judgement. Certain cloud services, such as Office 365, depend on a significant level of integration and interdependency between the desktop applications and cloud services. Judgement is required to determine whether the software licence is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud services and recognised over time.

Judgement is required to determine the standalone selling price ("SSP") for each separate performance obligation. We use a single amount to estimate SSP for items that are not sold separately, including on-premises licences sold with SA or software updates provided at no additional charge. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount that needs to be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

Due to the various benefits from and the nature of our SA programme, judgement is required to assess the pattern of delivery, including the exercise pattern of certain benefits across our portfolio of customers. Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognise using either the most likely amount or expected value method. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. We recognise revenue only to the extent that it is highly probable that a significant reversal of any incremental revenue will not occur.

Key estimates for revenue recognition are: determining the nature and timing of satisfaction of performance obligations, and determining the SSP of performance obligations, variable consideration, and other obligations such as product returns and refunds and product warranties. These estimates are sensitive to changes in circumstances and the actual results and outcomes may differ from management's estimates and assumptions.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Provision for expected credit losses

The company determines expected credit losses on trade receivables and contract assets, whereby a single expected credit loss percentage is determined based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. There were no significant changes in the estimation techniques or significant assumptions made during the reporting period, and there were no significant outliers or exceptions to the process.

The application of forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic and political conditions. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 16.

The company has considered the requirement to provide for expected credit losses in respect of receivables from other group companies. The company considers that the probability of default on such balances is very low and as such any related provision would be immaterial to the financial statements. The determination that the probability of default is very low is considered a significant judgement.

Defined Benefit Pension Scheme

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality rates. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note

The directors do not believe there are any other judgements that are critical in preparing the accounts.

4 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Product	1,199,099	1,227,097
Services and others	1,647,581	910,993
	<u>2,846,680</u>	<u>2,138,090</u>

The analysis of the company's turnover for the year by class of business is as follows:

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

4 Turnover (continued)

	2019 £ 000	2018 £ 000
Sales to third parties	2,110,760	1,406,803
Sales within the group	<u>735,920</u>	<u>731,287</u>
	<u>2,846,680</u>	<u>2,138,090</u>

As permitted by Schedule 1, paragraph 68 of the Companies Act 2006, revenue is not analysed by geographical market as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the company.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognised prior to invoicing, or deferred income when revenue is recognised subsequent to invoicing. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period. We record a receivable related to revenue recognised for multi-year on-premises licences as we have an unconditional right to invoice and receive payment in the future related to those licences. Contract balances were as follows:

Current assets and liabilities

	30 June 2019 £ 000	30 June 2018 £ 000
Current Assets		
Trade receivables	627,258	496,601
Accrued income - due within one year	197,718	121,919
Accrued income - due after one year	107,897	112,624
Creditors: Amounts falling due within one year		
Deferred income	1,174,529	752,448

Microsoft Limited**Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)****4 Turnover (continued)**

Deferred income is comprised mainly of unearned revenue related to volume licensing programmes, which may include SA and cloud services, net of deferred rebates. Deferred income is generally invoiced annually at the beginning of each contract period for multi-year agreements and recognised rateably over the coverage period. Deferred income also includes payments for: consulting services to be performed in the future; Office 365 subscriptions; Xbox Live subscriptions; Windows 10 post-delivery support; Dynamics business solutions; Skype prepaid credits and subscriptions; and other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers, such as invoicing at the beginning of a subscription term with revenue recognised rateably over the contract period, or to provide customers with financing, such as multi-year on-premises licences that are invoiced annually with revenue recognised upfront.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

5 Profit for the year

Arrived at after charging/(crediting)

	2019	2018
	£ 000	£ 000
Depreciation expense	11,143	8,997
Foreign exchange gains	(358)	(334)
Operating lease expense - property	21,345	19,752
Auditors remuneration for audit services (note 10)	109	118

6 Other interest receivable and similar income

	2019	2018
	£ 000	£ 000
Other finance income	3,088	2,133
Interest receivable from group undertakings	1,252	969
	4,340	3,102

7 Interest payable and similar expenses

	2019	2018
	£ 000	£ 000
Interest payable to group undertakings	157	1
Other finance costs	4,190	-
	4,347	1

8 Staff costs

The aggregate payroll costs were as follows:

	2019	2018
	£ 000	£ 000
Wages and salaries	399,956	369,273
Social security costs	47,487	44,410
Pension costs, defined benefit scheme	35,353	32,056
Share-based payment expenses	49,443	40,981
	532,239	486,720

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

8 Staff costs (continued)

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Sales and distribution	3,224	2,831
Administration	186	193
	<u>3,410</u>	<u>3,024</u>

9 Directors' remuneration

One director (2018: 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 paid director of the company are as follows. Remuneration in respect of qualifying services £801k (2018: £770k) and company contributions to money purchase pension schemes £Nil (2018: £Nil). The highest paid director exercised no share options in the year (2018 : £Nil) and had 38,613 shares receivable (2018 : 45,340) as per the terms of the equity settled share award scheme outlined in note 23.

One director received shares under a long-term incentive scheme.

10 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	<u>109</u>	<u>118</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

11 Taxation

Tax charged/(credited) in the profit and loss account

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	34,194	26,123
UK corporation tax adjustment to prior periods	989	(1,394)
	<u>35,183</u>	<u>24,729</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,130	3,034
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(1,757)	390
	<u>(627)</u>	<u>3,424</u>
Total deferred taxation	<u>(627)</u>	<u>3,424</u>
Tax expense in the profit and loss account	<u>34,556</u>	<u>28,153</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2018 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2019 £ 000	2018 £ 000
Profit before tax	<u>167,453</u>	<u>137,533</u>
Corporation tax at standard rate	31,816	26,131
Increase/(decrease) in current tax from adjustment for prior periods	989	(1,394)
Increase from effect of capital allowances depreciation	742	641
Increase from effect of expenses not deductible in determining taxable profit	1,881	886
Increase from effect of exercise employee share options	811	1,203
Deferred tax (credit)/expense from unrecognised temporary difference from a prior period	(1,757)	390
Deferred tax expense relating to changes in tax rates or laws	74	296
Total tax charge	<u>34,556</u>	<u>28,153</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

11 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 July 2018 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	Recognised in other £ 000	At 30 June 2019 £ 000
Timing difference in respect of capital allowances	3,468	257	-	-	-	3,725
Share-based Payment	12,321	370	-	1,113	-	13,804
Pension benefit obligations	(5,233)	-	2,670	(281)	(12,516)	(15,360)
Net tax assets / (liabilities)	10,556	627	2,670	832	(12,516)	2,169

The Finance Act 2016, provides for reductions in the main rate of corporation tax to 19% effective from 1 April 2017, and to 17% effective from 1 April 2020. This will reduce the company's future current tax charge accordingly. Deferred tax has been recognised at a rate of 17%.

The financial statements for the year ended 30 June 2018 recorded the transfer of the defined benefit pension scheme from Microsoft Mobile UK Ltd to Microsoft Limited at the gross value of the scheme assets and liabilities. Following the signing of the financial statements it was identified that the associated deferred tax liability should be transferred via intercompany. The transfer is not material and as such has been recorded as a reclass of intercompany and deferred tax liabilities through the current year. There is no impact on comprehensive income.

12 Dividends

	30 June 2019 £ 000	30 June 2018 £ 000
Paid dividend of £10,000 (2018 - £8,067) per each ordinary shares	150,000	121,000

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

13 Tangible assets

	Furniture, fittings and office equipment £ 000	Leasehold Improvements £ 000	Computer and technical equipment £ 000	Total £ 000
Cost or valuation				
At 1 July 2018	14,703	51,083	25,269	91,055
Additions	5,851	34,343	5,822	46,016
Disposals	(2,534)	(3,241)	(524)	(6,299)
Transfers	1,297	(1,297)	-	-
At 30 June 2019	<u>19,317</u>	<u>80,888</u>	<u>30,567</u>	<u>130,772</u>
Depreciation				
At 1 July 2018	13,125	17,976	23,288	54,389
Charge for the year	1,743	3,698	5,702	11,143
Eliminated on disposal	(2,541)	(3,241)	(511)	(6,293)
At 30 June 2019	<u>12,327</u>	<u>18,433</u>	<u>28,479</u>	<u>59,239</u>
Carrying amount				
At 30 June 2019	<u>6,990</u>	<u>62,455</u>	<u>2,088</u>	<u>71,533</u>
At 30 June 2018	<u>1,578</u>	<u>33,107</u>	<u>1,981</u>	<u>36,666</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

14 Investments

Subsidiaries	£ 000
Cost or valuation	
Investments in subsidiaries	61
At 30 June 2019	61
Carrying amount	
At 30 June 2019	61
At 30 June 2018	-

The subsidiary is Lionhead Studios Limited, which is registered and incorporated in the UK. The principle activity was the creation and development of video game software. The company has since ceased to trade. Microsoft Limited own 100% of ordinary shares of Lionhead Studios Limited.

15 Stock

	30 June 2019 £ 000	30 June 2018 £ 000
Finished goods and goods for resale	3,864	-

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

16 Debtors

	30 June 2019 £ 000	30 June 2018 £ 000
Trade debtors	627,258	496,601
Provision for impairment of trade debtors	<u>(4,944)</u>	<u>(2,540)</u>
Net trade debtors	622,314	494,061
Amounts owed by group undertakings	475,290	246,700
Prepayments	1,067,717	670,247
Other debtors	3,807	12,212
Accrued income	<u>197,718</u>	<u>121,919</u>
Total current trade and other debtors	2,366,846	1,545,139
Non-current receivables	<u>107,897</u>	<u>112,624</u>
Total trade and other debtors	<u><u>2,474,743</u></u>	<u><u>1,657,763</u></u>

Interest is received on amounts owed by group undertakings using a Reuter's 12-month interest rate. Intercompany debtors are repayable on demand. All amounts are due within one year and unsecured.

Prepayments are primarily made up of Intercompany Unearned COGS, which are the Intercompany element of Third Party Unearned Revenue. In accordance with matching principles and to ensure Microsoft Limited's margin achieve the agreed Transfer Price, the intercompany element must be recognised in line with the Third party revenue transactions.

Non-current receivables are the long term portion of the accrued income which is a result of timing differences between revenue recognition and the invoicing to customers. Refer to note 4 for more details.

Microsoft Limited**Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)****17 Creditors: amounts falling due within one year**

	30 June 2019 £ 000	30 June 2018 £ 000
Trade creditors	23,667	21,258
Other creditors	5,494	4,365
Accrued expenses	444,608	357,359
Amounts due to group undertakings	476,383	275,870
Social security and other taxes	206,102	137,167
Deferred income	1,174,529	752,448
Finance lease liabilities (note 19)	803	610
Corporation tax liability	8,738	(12,806)
	<u>2,340,324</u>	<u>1,536,271</u>

Interest is paid on amounts owed to group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. These amounts are unsecured.

18 Creditors: amounts falling due after more than one year

	30 June 2019 £ 000	30 June 2018 £ 000
Deferred rent	<u>3,438</u>	<u>4,278</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

19 Obligations under leases

Operating leases

The total future value of minimum lease payments is as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Within one year	17,886	13,346
In two to five years	70,602	52,795
In over five years	35,565	34,906
	<u>124,053</u>	<u>101,047</u>

The company leases certain office property under operating leases. The average lease term is 11.5 years.

20 Provisions for liabilities

	Onerous contracts £ 000	Dilapidations £ 000	Other provisions £ 000	Total £ 000
At 1 July 2018	101	3,830	15,622	19,553
Charged in the year	-	679	2,595	3,274
Utilised in the year	<u>(32)</u>	<u>-</u>	<u>-</u>	<u>(32)</u>
At 30 June 2019	<u>69</u>	<u>4,509</u>	<u>18,217</u>	<u>22,795</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/release 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 \$133.96 and the rate of NIC is 13.8%.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

21 Share capital

Allotted, called up and fully paid shares

	30 June 2019		30 June 2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>

Authorised shares

The authorised share capital of the company was 15,000 shares of £1 each (2018: 15,000 shares of £1 each)

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The shares have attached to them full voting, dividend and capital distribution rights. They do not confer any rights of redemption.

22 Pension and other schemes

Defined benefit pension schemes

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 March 2013.

The assets of the scheme are held separately from those of Microsoft Limited, being managed by Blackrock.

To develop the assumption for the expected long-term rate of return on assets, the company considered the current level of expected returns on government bonds and cash and the expectations for future returns of these asset classes. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 2.3% assumption for 2019 (2018 : 2.9%).

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

22 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Fair value of scheme assets	376,268	346,858
Present value of scheme liabilities	<u>(285,916)</u>	<u>(242,453)</u>
Defined benefit pension scheme surplus	<u>90,352</u>	<u>104,405</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Opening fair value of scheme assets	346,858	352,585
Interest income on plan assets	9,943	8,991
Contributions by employer	3,120	3,120
Return on plan assets	28,481	(114)
Benefits paid	<u>(12,134)</u>	<u>(17,724)</u>
Net pension scheme assets	<u>376,268</u>	<u>346,858</u>

Analysis of assets

The major categories of scheme assets are as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Cash and cash equivalents	4,908	2,163
Debt Instruments	216,558	344,695
Equity Instruments	77,366	-
Assets held by insurance company	74,574	-
Other	<u>2,862</u>	<u>-</u>
	<u>376,268</u>	<u>346,858</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

22 Pension and other schemes (continued)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Present value at start of period	242,453	272,635
Past service cost	4,190	-
Interest cost	6,855	6,858
Effect of changes in experience adjustments	(438)	1,534
Effect of changes in financial assumptions	44,990	(20,850)
Benefits paid	(12,134)	(17,724)
Present value at end of year	<u>285,916</u>	<u>242,453</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	30 June 2019 %	30 June 2018 %
RPI max 5%	3.10	3.00
RPI max 2.5%	2.20	2.15
CPI max 3%	2.20	2.10
Discount rate	2.30	2.90
Money purchase section projection rate	4.35	4.56
RPI Inflation	3.10	3.00
CPI Inflation	2.20	2.10
Deferred pension revaluation	<u>2.20</u>	<u>2.10</u>

There have been no changes in mortality assumptions when compared to 30 June 2018

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

22 Pension and other schemes (continued)

Amounts recognised in the income statement

	30 June 2019 £ 000	30 June 2018 £ 000
Interest on obligation	(6,855)	(6,858)
Interest income on pension scheme assets	9,943	8,991
Past service cost	<u>(4,190)</u>	<u>-</u>
Closing balance	<u><u>(1,102)</u></u>	<u><u>2,133</u></u>

Amounts taken to the Statement of Comprehensive Income

	30 June 2019 £ 000	30 June 2018 £ 000
Effect of changes in financial assumptions	(44,990)	20,850
Effect of changes in experience adjustments	438	(1,534)
Return on plan assets	<u>28,481</u>	<u>(114)</u>
Amounts recognised in the Statement of Comprehensive Income	<u><u>(16,071)</u></u>	<u><u>19,202</u></u>

23 Share-based payments

Stock awards are grants that entitle the holder to shares of Microsoft common stock as the award vests. Stock awards generally vest over a period of four or five years.

Microsoft also have an employee stock purchase plan ("the Plan") for all eligible employees. Shares of Microsoft common stock may be purchased by employees at a discounted price compared to the market value.

IFRS2 requires that equity-settled share based payments issued to the company's employees are measured at fair value and that this value is expensed over the vesting period. The expense recognised in the period arising from transactions accounted for on equity-settled share based payment transactions is £49,443,000 (2018 - £40,981,000). Stock awards granted during the financial year were 754,944 shares (2018 - 1,046,542). Awards outstanding at the end of the financial year were 2,049,077 (2018 - 2,541,161).

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

24 Related party transactions

As at 30 June 2019 and 30 June 2018, the company was a wholly owned subsidiary of Microsoft Corporation. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 16 and 17.

25 Parent and ultimate parent undertaking

The immediate parent company is Microsoft RI Holdings, registered address; Clarendon House, 2 Church Street, Hamilton HM 1022, Bermuda. The ultimate parent undertaking of the company, which is also the controlling undertaking and the largest and smallest company preparing group accounts in which the results of the company are consolidated, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the Investor Relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.