

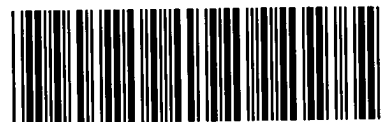
Registration number: 01624297

# Microsoft Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2017

THURSDAY



\*L72QXUTC\*

L10

29/03/2018

#73

COMPANIES HOUSE

## **Microsoft Limited**

### **Contents**

|  |          |
|--|----------|
| Company Information                                    | 1 to 2   |
| Strategic Report                                       | 3 to 4   |
| Directors' Report                                      | 5 to 6   |
| Directors' Responsibilities Statement                  | 7        |
| Independent Auditor's Report                           | 8 to 10  |
| Profit and Loss Account and Other Comprehensive Income | 11       |
| Balance Sheet  | 12       |
| Statement of Changes in Equity                         | 13       |
| Notes to the Financial Statements                      | 14 to 32 |

**Microsoft Limited**  
**Company Information**

**Directors**

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

**Company Secretary**

Reed Smith LLP, 20 Primrose Street, London, EC2A 2RS

**Company Number**

01624297 (UK)

**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  
20 Primrose Street  
London  
EC2A 2RS

Olswang Solicitors  
90 High Holborn  
London  
WC1V 6XX

Osborne Clark  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1AX

## **Microsoft Limited**

### **Company Information (continued)**

**Auditor**  
Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom  
UK

## **Microsoft Limited**

### **Strategic Report for the Year Ended 30 June 2017**

The directors present their strategic report for the year ended 30 June 2017. The directors are listed on page 1.

#### **Principal activity**

From February 2017, the principal activity of Microsoft Limited extended to include the direct distribution of computer software, peripherals, and hardware to customers. The company also continues to provide 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.

#### **Fair review of the business**

The primary purpose of the company is to distribute computer software, peripherals, and hardware to customers and to provide marketing and support services to other group companies. Turnover for the year amounted to £1,121m (2016: £956m) with a profit after taxation of £77m (2016: £86m). The majority of turnover comprises commissions from other group companies for their services. In the current year turnover from other group companies increased to £809m from £805m.

The key performance indicator for the company is based on return on employee investment. The return on employee investment in the current year was 20% (2016: 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 from the distribution of computer software, peripherals, and hardware to customers and from the Services business through its Managed Support and Consulting divisions. This represents the sales to third parties of £312m (2016: £151m).

The Distribution business encompasses the direct distribution of computer software and hardware for the Volume Licensing, Microsoft Business Solutions (MBS), Microsoft Supply Chain (MSC) and Online Retail lines of business to UK customers. Microsoft Limited conducts this business under a "Limited Risk Distributer" model, the terms of which are outlined in intercompany agreements.

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.

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, 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 2017, which are publicly available. Microsoft Limited's business model is expected to remain as it continues to provide marketing and support services to Microsoft's UK customer base.

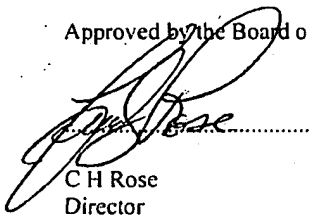
## Microsoft Limited

### Strategic Report for the Year Ended 30 June 2017 (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. The company's principal financial assets are 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 its behalf by:



C H Rose  
Director

## **Microsoft Limited**

### **Directors' Report for the Year Ended 30 June 2017**

The directors present their report and the financial statements for the year ended 30 June 2017.

#### **Dividends**

The directors approved a dividend payment of £113.6m be made in respect of the financial year ended 30 June 2017 (2016: £115.0m).

#### **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 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.

#### **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.

#### **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.

#### **Directors of the company**

The directors who served during the year and up to the date of this report are:

K R Dolliver

B O Orndorff

M Van Der Bel (resigned 3 October 2016)

C H Rose (appointed 1 September 2016)

#### **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 Company. This is achieved through formal and informal meetings.

#### **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 for the Year Ended 30 June 2017 (continued)**

**Disclosure of information to the auditor**

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

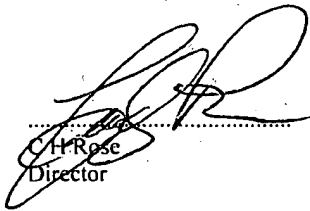
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor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

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

**Reappointment of auditor**

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 on 26/03/18 and signed on its behalf by:

  
C.H. Rose  
Director

## **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 the 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 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.

## **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:

- give a true and fair view of the state of the company's affairs as at 30/06/2017 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 of Microsoft Limited (the 'company') which comprise:

- The profit and loss account;
- The statement of comprehensive income;
- The balance sheet;
- The statement of changes in equity;
- The statement of accounting policies; and
- The related notes 2 to 21.

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 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **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.

## Microsoft Limited

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

#### Report on other legal and regulatory requirements

##### Opinions on other matters 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.

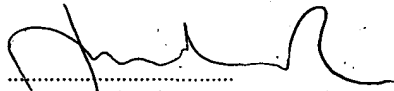
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the the strategic report or the directors' report.

##### 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.



Julian Rae (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

Date: 28 March 2018

## Microsoft Limited

### Profit and Loss Account and other comprehensive income for the Year Ended 30 June 2017

|  | Note | 2017<br>£ 000    | 2016<br>£ 000    |
|--|------|------------------|------------------|
| Turnover                               | 3    | 1,121,044        | 956,055          |
| Cost of sales                          |      | <u>(267,682)</u> | <u>(120,181)</u> |
| Gross profit                           |      | 853,362          | 835,874          |
| Distribution costs                     |      | (162,214)        | (153,340)        |
| Administrative expenses                |      | (586,819)        | (575,644)        |
| Other income                           |      | -                | 2,496            |
| Interest payable and similar charges   | 5    | (67)             | -                |
| Interest receivable and similar income | 5    | 1,003            | 1,799            |
| Other finance income                   | 7    | <u>1,004</u>     | <u>-</u>         |
| Profit before tax                      | 8    | 106,269          | 111,185          |
| Tax on profit on ordinary activities   | 9    | <u>(29,141)</u>  | <u>(25,544)</u>  |
| Profit for the year                    |      | <u>77,128</u>    | <u>85,641</u>    |

|   | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---------------|---------------|
| Profit for the year   | <u>77,128</u> | <u>85,641</u> |
| <b>Items that will not be reclassified subsequently to profit or loss</b> |               |               |
| Actuarial gain on pension scheme  | 3,761         | -             |
| Deferred tax on actuarial gain  | <u>(743)</u>  | <u>-</u>      |
| Total   | <u>3,018</u>  | <u>-</u>      |
| Total comprehensive income for the year                                   | <u>80,146</u> | <u>85,641</u> |

The above results were derived from continuing operations.

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

**Microsoft Limited**

**(Registration number: 01624297)  
Balance Sheet as at 30 June 2017**

|  | Note | 2017<br>£ 000  | 2016<br>£ 000  |
|--|------|----------------|----------------|
| <b>Non current assets</b>                                      |      |                |                |
| Tangible assets  | 10   | 33,496         | 39,026         |
| Deferred tax asset   | 11   | 15,680         | 14,692         |
|  |      | <u>49,176</u>  | <u>53,718</u>  |
| <b>Current assets</b>  |      |                |                |
| Debtors  | 12   | 866,923        | 384,039        |
| Corporation tax  |      | 1,024          | 971            |
|  |      | <u>867,947</u> | <u>385,010</u> |
| <b>Creditors: Amounts falling due within one year</b>          |      |                |                |
| Creditors: amounts falling due within one year                 | 13   | (778,195)      | (240,854)      |
| <b>Net current assets</b>                                      |      | <u>89,752</u>  | <u>144,156</u> |
| <b>Total assets less current liabilities</b>                   |      | <u>138,928</u> | <u>197,874</u> |
| <b>Creditors: Amounts falling due after more than one year</b> |      |                |                |
| Creditors: amounts falling due after more than one year        | 14   | (5,983)        | -              |
| Provisions for liabilities                                     | 15   | (16,344)       | (14,618)       |
| <b>Net assets excluding pension asset</b>                      |      | <u>116,601</u> | <u>183,256</u> |
| Net pension asset  | 16   | 79,950         | -              |
| <b>Net assets</b>  |      | <u>196,551</u> | <u>183,256</u> |
| <b>Capital and reserves</b>                                    |      |                |                |
| Called up share capital  | 17   | 15             | 15             |
| Profit and loss account  |      | <u>196,536</u> | <u>183,241</u> |
| <b>Shareholders' funds</b>                                     |      | <u>196,551</u> | <u>183,256</u> |

The financial statements of Microsoft limited, registration number 01624297, were approved and authorised for issue by the board of directors on 26/03/18 and signed on its behalf by:

  
C H Rose  
Director

**Microsoft Limited**

**Statement of Changes in Equity for the Year Ended 30 June 2017**

|  | Note | Called up share<br>capital<br>£ 000 | Profit and loss<br>account<br>£ 000 | Total<br>£ 000 |
|--|------|-------------------------------------|-------------------------------------|----------------|
| At 1 July 2016                                     |      | 15                                  | 183,241                             | 183,256        |
| <b>Total comprehensive income for the year</b>     |      |                                     |                                     |                |
| Profit for the year                                |      | -                                   | 77,128                              | 77,128         |
| Actuarial gain on pension scheme                   |      | -                                   | 3,761                               | 3,761          |
| Deferred tax on actuarial gain                     |      | -                                   | (743)                               | (743)          |
| Total comprehensive income                         |      | -                                   | 80,146                              | 80,146         |
| Current tax on share based payments                |      | -                                   | 4,842                               | 4,842          |
| Deferred tax on share based payments               |      | -                                   | 1,379                               | 1,379          |
| Deferred tax on pension                            |      | -                                   | 174                                 | 174            |
| Share based payment - contribution received        |      | -                                   | 40,354                              | 40,354         |
| Dividends  | 6    | -                                   | (113,600)                           | (113,600)      |
| Total contributions by and distributions to owners |      | -                                   | (66,851)                            | (66,851)       |
| <b>At 30 June 2017</b>                             |      | <b>15</b>                           | <b>196,536</b>                      | <b>196,551</b> |

|  | Note | Called up share<br>capital<br>£ 000 | Profit and loss<br>account<br>£ 000 | Total<br>£ 000 |
|--|------|-------------------------------------|-------------------------------------|----------------|
| At 1 July 2015                                     |      | 15                                  | 175,413                             | 175,428        |
| <b>Total comprehensive income for the year</b>     |      |                                     |                                     |                |
| Profit for the year                                |      | -                                   | 85,641                              | 85,641         |
| Total comprehensive income                         |      | -                                   | 85,641                              | 85,641         |
| Current tax on share based payments                |      | -                                   | 3,087                               | 3,087          |
| Deferred tax on share based payments               |      | -                                   | (109)                               | (109)          |
| Share based payment - contribution received        |      | -                                   | 34,247                              | 34,247         |
| Dividends  | 6    | -                                   | (115,038)                           | (115,038)      |
| Total contributions by and distributions to owners |      | -                                   | (77,813)                            | (77,813)       |
| <b>At 30 June 2016</b>                             |      | <b>15</b>                           | <b>183,241</b>                      | <b>183,256</b> |

## **Microsoft Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2017**

#### **1 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**

Microsoft Limited (the "Company") is a private company, limited by shares, incorporated and domiciled 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 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 Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

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.

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).

## **Microsoft Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)**

#### **1 Accounting policies (continued)**

##### **Summary of disclosure exemptions**

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.

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:

Certain disclosures required by 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

##### **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 £77m (2016: £86m) and was in a net asset position of £196m (2016: £183m).

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 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 director's continue to adopt the going concern basis in preparing the annual report and accounts.

## **Microsoft Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)**

#### **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 19 for details of how the fair value of awards is determined.

##### **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 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 for the Year Ended 30 June 2017 (continued)

#### 1 Accounting policies (continued)

##### Defined contribution pension obligation

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are down in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

##### Defined benefit pension obligation

The Company is a participating Company of the Nokia Group (UK) Pension Scheme. This is a funded group pension scheme that provides both benefits based on final pensionable pay and benefits dependant on contributions paid. The assets of the scheme are held separately from those of Microsoft Limited, being managed by Blackrock Investment managers.

Contributions to the defined benefit tier of the scheme are based upon pension costs across the group as a whole, whereas contributions to the defined contribution tier of the scheme are fixed.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method which attributes entitlements to benefits to the current period (to determine current service costs) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit and loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the Statement of Comprehensive Income during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. The net interest is recognised in the Statement of Comprehensive Income as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised in other comprehensive income in the period in which they occur.

The defined benefit pension asset in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amounts the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the Statement of Comprehensive Income in the period in which they become payable.  
Refer to note 16 for further details.

## **Microsoft Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)**

#### **1 Accounting policies (continued)**

##### **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.

##### **Finance 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.

##### **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 receivables and payables approximates their fair value. Third-party and intercompany payables and receivables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment.

##### **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.

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 1 Accounting policies (continued)

##### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

Revenue is recognised when earned. Revenue from corporate license programmes is recorded when the software has been delivered and the customer is invoiced. Revenue from packaged product sales to and through distributors and resellers is recorded when related products are shipped. Maintenance and subscription revenue is recognised rateably over the contract period. Revenue attributable to undelivered elements, including technical support and internet browser technologies, is based on the average sales price of those elements and is recognised rateably on a straight-line basis over the product's life cycle. Where a contract has only been partially completed at the balance sheet date, revenue recognised represents the value of the service provided to date based on a proportion of the total contract value. Costs related to insignificant obligations, which include telephone support for certain products, are accrued. Provisions are recorded for returns, concessions and bad debts where it is reasonably expected that these will occur.

The company recognises revenue when:  
The amount of revenue can be reliably measured;  
it is probable that future economic benefits will flow to the entity;  
and specific criteria have been met for each of the company activities.

Revenue includes commission receivable by the company under agreements with a fellow subsidiary.

##### 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.

##### Trade debtors

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

##### Trade creditors

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 1 Accounting policies (continued)

##### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

##### **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. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **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.

#### 2 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires the company to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

##### **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 16.

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 3 Turnover

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the year. Turnover from third parties is attributable to the distribution of computer software, peripherals, and hardware and provision of managed support and consulting services to customers. Turnover from group companies represents the provision of marketing and support services to group companies. It includes commission receivable by the company under agreements with a fellow subsidiary.

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

|                                    | 2017<br>£ 000    | 2016<br>£ 000  |
|------------------------------------|------------------|----------------|
| Revenue from sale of goods         | 967,579          | 805,135        |
| Revenue from rendering of services | 153,465          | 150,920        |
|                                    | <u>1,121,044</u> | <u>956,055</u> |

|                        | 2017<br>£ 000    | 2016<br>£ 000  |
|------------------------|------------------|----------------|
| Sales to third parties | 311,774          | 151,121        |
| Sales within the group | 809,270          | 804,934        |
|                        | <u>1,121,044</u> | <u>956,055</u> |

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

|        | 2017<br>£ 000    | 2016<br>£ 000  |
|--------|------------------|----------------|
| UK     | 311,774          | 151,121        |
| Europe | 749,096          | 729,210        |
| US     | 60,174           | 75,724         |
|        | <u>1,121,044</u> | <u>956,055</u> |

#### 4 Information regarding Directors and Employees

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

|                        | 2017<br>No.  | 2016<br>No.  |
|------------------------|--------------|--------------|
| Sales and distribution | 2,846        | 2,880        |
| Administration         | 200          | 224          |
|                        | <u>3,046</u> | <u>3,104</u> |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 4 Information regarding Directors and Employees (continued)

The aggregate payroll costs (including directors' remuneration) were as follows:

|  | 2017<br>£ 000  | 2016<br>£ 000  |
|--|----------------|----------------|
| Wages and salaries                         | 367,839        | 384,999        |
| Social security costs                      | 41,154         | 39,266         |
| Pension costs, defined contribution scheme | 30,915         | 31,392         |
|  | <u>439,908</u> | <u>455,657</u> |

Two directors (2016: 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 £838k (2016: £678k) and company contributions to money purchase pension schemes £nil (2016: £25k). The highest paid director exercised no share options in the year (2016: 15,606) and had 48,585 shares receivable (2016: 61,133) as per the terms of the equity settled share award scheme outlined in note 19.

Details of the remuneration of the directors of the company are as follows. Remuneration in respect of qualifying services £1,191k (2016: £678k) and company contributions to money purchase pension schemes £18k (2016: £25k). The directors exercised 16,527 share options in the year (2016: 15,606) and had 48,585 shares receivable (2016: 61,133) as per the terms of the equity settled share award scheme outlined in note 19.

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

At 30 June 2017 there were £2.5m pension contributions outstanding (2016: £nil).

The share-based payment charge for the year was £40.4m (2016: £34.2m), refer to note 19.

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 5 Other interest receivable and payable

|  | 2017<br>£ 000 | 2016<br>£ 000 |
|--|---------------|---------------|
| Interest receivable from parent company            | -             | 11            |
| Interest receivable from fellow group undertakings | 1,003         | 1,788         |
| Interest payable to fellow group undertakings      | (62)          | -             |
| Interest payable to third-parties                  | (5)           | -             |
|  | <u>936</u>    | <u>1,799</u>  |

#### 6 Dividends

|   | 2017<br>£ 000  | 2016<br>£ 000  |
|---|----------------|----------------|
| Final dividend of £7,573.00 (2016 - £7,669.00) per ordinary share | <u>113,600</u> | <u>115,038</u> |

#### 7 Other finance income

|   | 2017<br>£ 000  | 2016<br>£ 000 |
|---|----------------|---------------|
| Interest income on pension scheme assets      | 4,819          | -             |
| Net interest on net defined benefit liability | <u>(3,815)</u> | <u>-</u>      |
|   | <u>1,004</u>   | <u>-</u>      |

#### 8 Profit for the financial year

Profit for the financial year is stated after charging/(crediting)

|                                 | 2017<br>£ 000 | 2016<br>£ 000 |
|---------------------------------|---------------|---------------|
| Rentals under operating lease   | 32,171        | 23,174        |
| Depreciation expense            | 11,159        | 16,132        |
| Foreign exchange (gains)/losses | (476)         | 70            |
| Rental income                   | -             | (2,496)       |
| Auditor's remuneration          | <u>109</u>    | <u>116</u>    |

Auditor's remuneration consists of fees payable solely in respect of the audit of the Company's financial statements.

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 9 Tax on profit

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

|  | 2017<br>£ 000        | 2016<br>£ 000        |
|--|----------------------|----------------------|
| <b>Current taxation</b>                        |                      |                      |
| UK corporation tax                             | 27,261               | 23,101               |
| UK corporation tax adjustment to prior periods | 2,059                | 923                  |
| Total current tax                              | <u>29,320</u>        | <u>24,024</u>        |
| <b>Deferred taxation</b>                       |                      |                      |
| Deferred Tax - current year                    | (808)                | 1,289                |
| Deferred tax - prior year adjustment           | 629                  | 231                  |
| Total deferred taxation                        | <u>(179)</u>         | <u>1,520</u>         |
| Tax expense in the profit and loss account     | <u><u>29,141</u></u> | <u><u>25,544</u></u> |

#### Reconciliation to tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19.75% (2016 - 20%).

The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

|  | 2017<br>£ 000        | 2016<br>£ 000        |
|--|----------------------|----------------------|
| Profit before tax  | <u>106,269</u>       | <u>111,185</u>       |
| Corporation tax at standard rate   | 20,988               | 22,237               |
| Depreciation on non-qualifying assets                                      | 3,348                | 689                  |
| Permanent adjustments  | 615                  | 511                  |
| Share schemes  | 1,305                | (342)                |
| Prior year adjustment  | 2,688                | 1,154                |
| Short-term timing differences  | -                    | 1,295                |
| Increase (decrease) from effect of different UK tax rates on some earnings | <u>197</u>           | <u>-</u>             |
| Total tax charge   | <u><u>29,141</u></u> | <u><u>25,544</u></u> |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 9 Tax on profit (continued)

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.

#### 10 Property, plant and equipment

|                          | Furniture,<br>fittings and<br>office<br>equipment<br>£ 000 | Computer &<br>technical<br>equipment<br>£ 000 | Leasehold<br>improvements<br>£ 000 | Total<br>£ 000 |
|--------------------------|--|---|------------------------------------|----------------|
| <b>Cost or valuation</b> |  |   |                                    |                |
| At 1 July 2016           | 17,369   | 56,096  | 51,041                             | 124,506        |
| Additions                | 2,114  | 4,057   | 9,583                              | 15,754         |
| Disposals                | (5,666)  | (36,634)                                      | (18,971)                           | (61,271)       |
| Transfers                | 23   | 2   | (23)                               | 2              |
| At 30 June 2017          | <u>13,840</u>  | <u>23,521</u>                                 | <u>41,630</u>                      | <u>78,991</u>  |
| <b>Depreciation</b>      |  |   |                                    |                |
| At 1 July 2016           | 16,594   | 50,712  | 18,174                             | 85,480         |
| Charge for the year      | 1,457  | 4,193   | 5,509                              | 11,159         |
| Eliminated on disposals  | (4,652)  | (36,434)                                      | (10,060)                           | (51,146)       |
| Transfers                | -  | 2   | -                                  | 2              |
| At 30 June 2017          | <u>13,399</u>  | <u>18,473</u>                                 | <u>13,623</u>                      | <u>45,495</u>  |
| <b>Carrying amount</b>   |  |   |                                    |                |
| At 30 June 2017          | <u>441</u>   | <u>5,048</u>                                  | <u>28,007</u>                      | <u>33,496</u>  |
| At 30 June 2016          | <u>775</u>   | <u>5,384</u>                                  | <u>32,867</u>                      | <u>39,026</u>  |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 11 Deferred tax

|   | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---------------|---------------|
| Timing differences in respect of capital allowances             | 5,040         | 4,419         |
| Share-based payments  | 11,715        | 10,273        |
| Defined benefit pension scheme                                  | (1,075)       | -             |
|   | <u>15,680</u> | <u>14,692</u> |
|   | 2017<br>£ 000 | 2016<br>£ 000 |
| Balance at July 2016  | 14,692        | 16,321        |
| Credited / (charged) to the profit and loss account in the year | 179           | (1,289)       |
| (Charged) to other comprehensive income in the year             | (743)         | -             |
| Credited to equity in the year                                  | 1,552         | (109)         |
| Prior year deferred tax adjustment                              | -             | (231)         |
| Balance at 30 June 2017   | <u>15,680</u> | <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.

#### 12 Debtors

|   | 2017<br>£ 000  | 2016<br>£ 000  |
|---|----------------|----------------|
| Trade debtors                             | 230,658        | 57,357         |
| Provision for impairment of trade debtors | (903)          | -              |
| Net trade debtors                         | 229,755        | 57,357         |
| Amounts owed by fellow group undertakings | 406,781        | 307,433        |
| Other debtors                             | 2,968          | 495            |
| Accrued income                            | 4,908          | 7,488          |
| Prepayments                               | 222,511        | 11,266         |
| Total current trade and other debtors     | <u>866,923</u> | <u>384,039</u> |

Interest is received on amounts owed by group undertakings, using a Reuter's one-month interest rate.

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

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 13 Creditors : amounts falling due within one year

|                                    | 2017<br>£ 000  | 2016<br>£ 000  |
|------------------------------------|----------------|----------------|
| Bank overdrafts                    | -              | 209            |
| Trade creditors                    | 31,455         | 25,933         |
| Other creditors                    | 4,069          | 6,697          |
| Other taxation and social security | 60,800         | 13,985         |
| Accrued expenses                   | 116,738        | 110,678        |
| Deferred income                    | 318,051        | 83,352         |
| Amounts due to related parties     | 247,082        | -              |
|                                    | <u>778,195</u> | <u>240,854</u> |

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

#### 14 Creditors : amounts falling due after more than one year

|               | 2017<br>£ 000 | 2016<br>£ 000 |
|---------------|---------------|---------------|
| Deferred rent | <u>5,983</u>  | <u>-</u>      |

#### 15 Provisions for liabilities

|                      | Dilapidations<br>£ 000 | Onerous<br>contracts<br>£ 000 | Other<br>provisions<br>£ 000 | Total<br>£ 000 |
|----------------------|------------------------|-------------------------------|------------------------------|----------------|
| At 1 July 2016       | 4,105                  | 149                           | 10,364                       | 14,618         |
| Charged in the year  | 571                    | -                             | 2,666                        | 3,237          |
| Utilised in the year | <u>(1,487)</u>         | <u>(24)</u>                   | <u>-</u>                     | <u>(1,511)</u> |
| At 30 June 2017      | <u>3,189</u>           | <u>125</u>                    | <u>13,030</u>                | <u>16,344</u>  |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 15 Provisions for liabilities (continued)

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 \$68.93 and the rate of NIC is 13.8%.

#### 16 Pension and other schemes

##### Pension Commitments

The company operates a Defined Benefit Pension Scheme

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

The company is the sponsoring employer for the defined benefit pension scheme, however until 1 January 2017 there had been a stated policy for charging the net defined benefit cost in full to Microsoft Mobile UK Limited, a fellow subsidiary under common control. Therefore, the financial statements of Microsoft Mobile UK Limited included the full cost of the defined benefit pension scheme until that date. The pension balance was transferred to the company on 1 January 2017 for book value.

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 2.6% assumption for 2017

Composition of plan assets:

|                           | 2017<br>£ 000  |
|---------------------------|----------------|
| Cash and equivalents      | 2,582          |
| Debt Instruments          | 350,003        |
| Fair value of plan assets | <u>352,585</u> |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 16 Pension and other schemes (continued)

|                                   | 2017<br>£ 000 |
|-----------------------------------|---------------|
| Fair value of plan assets         | 352,585       |
| Present value of plan liabilities | (272,635)     |
| Net pension scheme assets         | <u>79,950</u> |

The amounts recognised in profit and loss are as follows:

|  | 2017<br>£ 000 |
|--|---------------|
| Interest on obligation                   | (3,815)       |
| Interest income on pension scheme assets | 4,819         |
| Total                                    | <u>1,004</u>  |

|  |              |
|--|--------------|
| Effect of changes in financial assumptions   | 1,663        |
| Effect of experience adjustments             | 8,135        |
| Return on plan assets                        | (6,037)      |
| Total defined benefit cost recognised in OCI | <u>3,761</u> |

Reconciliation of present value of defined benefit obligation were as follows:

|   | 2017<br>£ 000  |
|---|----------------|
| Opening defined benefit obligation          | -              |
| Interest cost                               | 3,815          |
| Effect of changes in experience adjustments | (8,135)        |
| Transfer of pension scheme                  | 286,554        |
| Effect of changes in financial assumptions  | (1,663)        |
| Benefits paid                               | (7,936)        |
| Closing defined benefit obligation          | <u>272,635</u> |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 16 Pension and other schemes (continued)

Reconciliation of fair value of plan assets were as follows:

|                                     | 2017<br>£ 000  |
|-------------------------------------|----------------|
| Opening fair value of scheme assets | -              |
| Interest income on plan assets      | 4,819          |
| Contributions by employer           | 1,560          |
| Transfer of pension scheme          | 360,179        |
| Return on plan assets               | (6,037)        |
| Benefits paid                       | (7,936)        |
|                                     | <u>352,585</u> |

The company expects to contribute £3,120,000 to its Defined Benefit Pension Scheme in FY18

The projected defined benefit cost for the year ending 30 June 2018 is a credit of £2,139,000. Although the funded status in the Scheme has improved, the lower discount rate results in a lower net interest cost and hence the expected Statement of comprehensive income credit.

#### 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:

|  | 2017<br>%   |
|--|-------------|
| Discount rate                          | 2.60        |
| Money purchase section projection rate | 4.65        |
| RPI Inflation                          | 3.20        |
| CPI Inflation                          | 2.30        |
| RPI max 5%                             | 3.10        |
| RPI max 2.5%                           | 1.80        |
| CPI max 3%                             | 2.20        |
| Deferred pension revaluation           | <u>2.20</u> |

#### Post-retirement mortality table

SINA Light rated up by 1 year for males and unadjusted for females, with CMI 2012 projections and a 1.5% p.a. long term rate of improvement.

#### 17 Share Capital

Authorised, allotted, called up and fully paid shares

|                                   | 2017<br>£ 000 | 2016<br>£ 000 |
|-----------------------------------|---------------|---------------|
| 15,000 ordinary shares of £1 each | <u>15</u>     | <u>15</u>     |

## Microsoft Limited

### Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)

#### 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.

#### 18 Obligations under operating leases

##### 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:

|                                       | 2017<br>Land and<br>Buildings<br>£ 000 | 2016<br>Land and<br>Buildings<br>£ 000 |
|---------------------------------------|--|--|
| <b>Operating leases which expire:</b> |  |  |
| Within one year                       | 13,457                                 | 16,219                                 |
| In two to five years                  | 53,480                                 | 58,024                                 |
| In over five years                    | 46,249                                 | 50,455                                 |
|                                       | <u>113,186</u>                         | <u>124,698</u>                         |

The company leases certain office property under operating leases. The average lease term is 8.5 years.

#### 19 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:

|                                    | 2017<br>Number   | 2016<br>Number   |
|------------------------------------|------------------|------------------|
| Outstanding, start of year         | 3,828,454        | 4,176,466        |
| Granted during the year            | 1,419,001        | 1,753,648        |
| Forfeited during the period        | (686,604)        | (827,872)        |
| Exercised during the year          | (1,322,196)      | (1,489,243)      |
| Expired during the period          | (3,236)          | -                |
| Transferred in, during the year    | 120,350          | -                |
| Transferred out, during the period | (292,532)        | -                |
| Outstanding, end of year           | <u>3,063,237</u> | <u>3,612,999</u> |

The weighted average share price at date of exercise of share options exercised during the year was £58.5m (2016 - £46.35).

## **Microsoft Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2017 (continued)**

#### **19 Share-based payments (continued)**

##### **Fair value of options granted**

The weighted average fair value of options granted during the period at measurement date was £40.4m (2016 - £64.4m).

##### **Charge/credit arising from share-based payments**

The total charge for the year for share-based payments was £40.4m (2016 £34.2m), of which £Nil (2016 - £Nil) related to equity-settled share-based payment transactions.

##### **Outstanding share options**

The unvested awards as at 30 June 2017 had weighted average remaining contractual life of 3.71 years (2016: 3.02 years)

##### **Share awards**

The company recognised total expenses of £39.8m and £33.7m in relation to share award transactions during 2017 and 2016 respectively.

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

##### **Employee share purchase plan**

The company recognised a further £0.6m (2016:£0.5m) relating to the employee share purchase plan during the year.

#### **20 Ultimate parent and controlling party**

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, 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 annual report are available on written request from the Investor Relations Department, at the registered address Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

#### **21 Related party transactions**

As at 30 June 2017 and 30 June 2016, 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 12 and 13.