

Microsoft Mobile UK Limited

Directors' report and financial statements

For the year ended 31 December 2016



Microsoft Mobile UK Limited

Company Information

| | |
|----------------------------|---|
| Directors | K Dolliver L Kiviat B Orndorff |
| Company secretary | Reed Smith Corporate Services Limited |
| Registered number | 02212202 |
| Registered office | The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS |
| Independent auditor | Deloitte LLP Deloitte House Station Place Cambridge CB1 2FP |
| Solicitors | Reed Smith LLP The Broadgate Tower 20 Primrose Street London EC2A 2RS |

Microsoft Mobile UK Limited

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Microsoft Mobile UK Limited

Strategic report For the year ended 31 December 2016

The directors present their strategic report for Microsoft Mobile UK Limited (the 'Company') for the year ended 31 December 2016.

Business review

During the financial year, the company scaled back significantly on the marketing, sale and distribution of mobile phone equipment. Microsoft announced the sale of its feature phone brand. Despite this not having an impact on the UK operations, the company also downsized its smart phone operations. As a result Microsoft Mobile UK Limited experienced a significant drop in business.

Despite all of this Microsoft announced that it will continue to support Lumia phones such as Lumia 650, Lumia 950, Lumia 950 XL. The directors acknowledge that the company was only providing support for these phones, but Microsoft Mobile UK Limited will no longer be involved in the sale, marketing and distribution of these devices. The company is no longer considered as a revenue generating unit coupled with the fact it has no current employees.

The company's key financial performance indicators during the financial year were as follows.

Turnover

Turnover decreased by 58% during the financial year. The decrease was due to two main reasons. Firstly, there was a continuing trend from previous year where the competitive and saturated market had a profound impact during the first half of 2016.

The second reason was mainly down to the strategic decision of the business to curtail the mobile phone activities within the business. As a result there were no new phone releases during the financial year and all the marketing and sale activities to engage with customers and promote the devices were completely scaled down.

Operating profit

Profit from operations decreased by 52% to a profit of £1,616,000 (2015: profit of £3,363,000) for the financial year. The decrease in operating profit was due to the market conditions and the strategic business decision to curtail the mobile phone activities within the business.

Shareholders funds

The composition of shareholders funds has decreased in 2016 compared to the financial year 2015. Shareholders funds is mainly driven by a £73m pensions asset for the defined benefit scheme.

Market development and business environment

Business environment

The company operated in a very difficult and competitive and saturated market. However, based on the on the strategic decision of the company to scale back operations, the market trends were not of similar significance as compared with previous years.

Developments in the market were not of strategic importance in 2016 since the company was not operating at full capacity. The directors however still believes that the UK market will remain competitive for years to come.

At the same time, Microsoft announced it will continue to develop Windows 10 Mobile and support Lumia phones such as the Lumia 650, Lumia 950 and Lumia 950 XL. However the activities are not expected to return to pre 2016 levels.

Strategic report
For the year ended 31 December 2016

Principal risks and uncertainties

The company is exposed to a number of risks including the effects of the competitive risks, price risks, interest rate, cash flow and credit risk. In order to minimise the impact of these risks, the Microsoft Group has a central treasury function which manages all the financial risk of the group, and the company also has other internal functions which manages general business risks.

Competitive risks

The company is reliant on partners who operate within the industry to help it take devices to the consumer. These partners also have similar strategic relationships with competitors, which makes the competition even stronger. This competition is also driven by price points offered by our competitors which can have an impact on the overall sales of mobile devices.

Interest rate and cash flow risk

The Company has both interest bearing assets and interest bearing liabilities. All of these are with Microsoft group companies and are subject to either fixed interest rates or variable interest rates determined by the central treasury team. If the directors consider any assets or liabilities to be at the risk of default then guarantee is sought from the parent company for the level of that risk.

Price risks

This arises because of changes in the price of mobile devices. The company operates in an ever-changing environment where prices are often determined by market conditions and the ability of the company to market devices as adding value to the consumers.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Each customer has an appropriate credit limit for their perceived risk. A policy of sales blocking is used if a customer exceeds their credit limit. Microsoft Mobile Oy established Microsoft Mobile Global Finance to carry out the function of cash and financial risk management across the devices business.

This report was approved by the board on 27 December 2017 and signed on its behalf.


R. Orudorff
Director

Microsoft Mobile UK Limited

Directors' report
For the year ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Principal activity

Microsoft Mobile UK Limited's principal activities are the sales and marketing of mobile communication devices. Microsoft Mobile's aim is to bring complex technology to the consumer in a very human way, through mobile devices.

As stated in the strategic report the company has scaled down its marketing, sale and distribution of mobile phones.

Results and dividends

The profit for the year, after taxation, amounted to £4,692,000 (2015 - £4,178,000).

A dividend of £nil (2015: nil) was paid in the year. The directors do not recommend the payment of a final dividend for the year (2015: nil). At the end of the financial year, the Company had net assets of £77,503,000 (2015: £75,287,000).

Directors

The directors who served during the year were:

K Dolliver
L Kiviat
B Orndorff

Strategy, subsequent events and future developments***Strategy***

The strategy of the company has changed from an entity which develops Windows 10 mobile, and support Lumia phones. The company has curtailed operations and is expected to wind up the business no too long from now. Therefore the company no longer has a mobile phone strategy apart from winding up operations.

Subsequent events

Subsequent to the year end the company has agreed to transfer the pension asset and all associated liabilities to Microsoft Limited. This will be settled at fair value through intercompany invoicing.

Future developments

Future developments are discussed in the Business review section of the Strategic report on page 1.

Directors' report (continued)
For the year ended 31 December 2016

Environmental policy

Microsoft Mobile UK Limited controls and manages its activities to ensure risks to the health, safety and welfare of its employees, customers and the general public are identified and action taken to minimise or eliminate their effects.

Adverse effects of operational activities on the environment will be minimised as far as practicable with the following key objectives:

- To comply with its legal obligations under the current Health, Safety and Welfare Act and the Environmental Protection Act, together with all other applicable statutory provisions and relevant codes of practice.
- To promote health, safety and environmental awareness throughout the organisation.
- To minimize the social impact of the Company activities and avoid damage to the environment through regular reviews of the business from environmental and management systems audits
- To minimize the social impact of the Company activities and avoid damage to the environment through regular reviews of the business from environmental and management systems audits.
- To undertake environmental impact studies as part of any company relocation or enlargement of existing facilities.

Insurance of directors

Following shareholder approval, the Company has provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Going concern

The directors acknowledge that the business is no longer a cash generating entity and has stated their intention to dissolve the entity. The entity will cease to trade and the Company will at some point commence the statutory work necessary for dissolution. Using this background, we do not consider the entity meeting the going concern criteria even if dissolution takes longer than 12 months after the signing of these financial statements.

Matters covered in the strategic report

Details on strategy, financial risk management, subsequent events and future development are provided in the Strategic report on pages 1 to 2.

Directors' report (continued)
For the year ended 31 December 2016

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- 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.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

Auditors

The auditors, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 27 December 2017 and signed on its behalf.


B Orndorff
Director

Independent auditors' report to the members of Microsoft Mobile UK Limited

We have audited the financial statements of Microsoft Mobile UK Limited for the year ended 31 December 2016, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Financial Statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Independent auditors' report to the members of Microsoft Mobile UK Limited

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 and the Directors' Report.

Matters on which we are required to report by exception

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

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



Julian Rae (Senior statutory auditor)
for and on behalf of

Deloitte LLP
Statutory Auditor
Cambridge

Date: 29 December 2017

Microsoft Mobile UK Limited

Statement of comprehensive income
For the year ended 31 December 2016

| | Note | 2016 £000 | 2015 £000 |
|---|------|---------------|---------------|
| Turnover | 3 | 67,080 | 160,222 |
| Cost of sales | | (36,713) | (84,155) |
| Gross profit | | 30,367 | 76,067 |
| Administrative expenses | | (28,804) | (72,237) |
| Other operating charges | | 53 | (467) |
| Operating profit | 4 | 1,616 | 3,363 |
| Interest receivable | 7 | 379 | 389 |
| Interest payable and expenses | 8 | (91) | (75) |
| Other finance income | 9 | 2,911 | 2,524 |
| Profit before tax | | 4,815 | 6,201 |
| Tax on profit on ordinary activities | 10 | (123) | (2,023) |
| Profit for the year | | 4,692 | 4,178 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Actuarial loss on pension scheme | | (2,967) | (449) |
| Deferred tax on actuarial loss | | 491 | 243 |
| | | (2,476) | (206) |
| Total comprehensive income for the year | | 2,216 | 3,972 |

Microsoft Mobile UK Limited
Registered number:02212202

Balance sheet
As at 31 December 2016

| | Note | 2016 £000 | 2016 £000 | 2015 £000 | 2015 £000 |
|--|------|-----------------|---------------|-----------------|---------------|
| Current assets | | | | | |
| Debtors | 11 | 41,608 | | 99,511 | |
| Cash at bank and in hand | 12 | 518 | | 1,858 | |
| | | <u>42,126</u> | | <u>101,369</u> | |
| Creditors: amounts falling due within one year | 13 | (25,732) | | (72,411) | |
| Net current assets | | | 16,394 | | 28,958 |
| Total assets less current liabilities | | | <u>16,394</u> | | <u>28,958</u> |
| Provisions for liabilities | | | | | |
| Deferred taxation | | (12,516) | | (12,701) | |
| Provisions | | - | | (11,531) | |
| | | <u>(12,516)</u> | | <u>(24,232)</u> | |
| Net assets excluding pension asset | | | <u>3,878</u> | | <u>4,726</u> |
| Pension asset | 17 | | 73,625 | | 70,561 |
| Net assets | | | <u>77,503</u> | | <u>75,287</u> |
| Capital and reserves | | | | | |
| Called up share capital | 16 | | 20,000 | | 20,000 |
| Profit and loss account | | | 57,503 | | 55,287 |
| | | | <u>77,503</u> | | <u>75,287</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on


B. Orndorff
Director


K. Dolliver
Director

The notes on pages 11 to 26 form part of these financial statements.

Microsoft Mobile UK Limited

Statement of changes in equity
For the year ended 31 December 2016

| | Called up share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|------------------------------------|------------------------------------|----------------------|
| At 1 January 2016 | 20,000 | 55,287 | 75,287 |
| Comprehensive income for the year | | | |
| Profit for the year | - | 4,692 | 4,692 |
| | | | |
| Actuarial gain/(loss) on pension scheme | - | (2,967) | (2,967) |
| Deferred tax on actuarial gain | - | 491 | 491 |
| | | | |
| Other comprehensive income for the year | - | (2,476) | (2,476) |
| | | | |
| Total comprehensive income for the year | - | 2,216 | 2,216 |
| | | | |
| Total contributions by and distributions to owners | - | - | - |
| | | | |
| At 31 December 2016 | 20,000 | 57,503 | 77,503 |

Statement of changes in equity
For the year ended 31 December 2015

| | Called up share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|------------------------------------|------------------------------------|----------------------|
| At 1 January 2015 | 20,000 | 51,315 | 71,315 |
| Comprehensive income for the year | | | |
| Profit for the year | - | 4,178 | 4,178 |
| | | | |
| Actuarial gain on pension scheme | - | (449) | (449) |
| Deferred tax on actuarial gain | - | 243 | 243 |
| | | | |
| Other comprehensive income for the year | - | (206) | (206) |
| | | | |
| Total comprehensive income for the year | - | 3,972 | 3,972 |
| | | | |
| Total contributions by and distributions to owners | - | - | - |
| | | | |
| At 31 December 2015 | 20,000 | 55,287 | 75,287 |

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies

1.1 Basis of preparation of financial statements

Microsoft Mobile UK Limited is a limited liability company incorporated in England. The registered office is The Broadgate Tower Third Floor, 20 Primrose Street, London, EC2A 2RS.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 2).

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

This information is included in the consolidated financial statements of Microsoft Corporation as at 31 December 2016 and these financial statements may be obtained from One Microsoft Way, Redmond, Washington, USA.

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies (continued)

1.3 Going concern

The company's business activities, together with the factors likely to affect its future development, principal risks and uncertainties, financial risk management objectives, performance and position are set out in the strategic report and the directors' report.

As noted in the Directors report, it is the intention of the directors to wind up the company within months of signing these financial statements. As a result, these financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the assets to net realisable value. The financial statements do not include any costs incurred since the Balance Sheet date or any provision for the future costs of liquidating the business.

1.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies (continued)

1.5 Deferred Income

The company has deferred income in respect of some of its service sales. Deferred income is treated as a liability in the balance sheet and is released to the Statement of comprehensive income when the economic benefit from these activities flows into the organisation.

1.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.7 Cash

In order to minimise the impact of finance risks, the Microsoft Group has a central treasury function which manages the financial risks of the group. All cash management for the company is handled via the central team. As part of the sale, Microsoft Mobile Limited created an entity called Microsoft Mobile Global Finance to carry out the same function of cash and financial risk management across the organisation. Cash represents bank balances at the year end.

1.8 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of comprehensive income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

1. Accounting policies (continued)

1.8 Financial instruments (continued)

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance sheet.

1.9 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.10 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies (continued)

1.11 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown 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 plan

The Company has been a participating Company of the Nokia Group (UK) Pension Scheme since 1 June 1990. 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 Mobile UK Limited, being managed by BlackRock Investment managers and Zurich Assurance Limited.

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 cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or 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 plan of 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 amount 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.

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies (continued)

1.12 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

1.13 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

1.14 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the financial statements
For the year ended 31 December 2016

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

The preparation of the financial statements requires management 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 revenues and expenses during the year. However, the nature of estimation means that 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:

Pensions and other post-employment benefits

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 18.

3. Turnover

Analysis of turnover by country of destination:

| | 2016 £000 | 2015 £000 |
|----------------|---------------|----------------|
| United Kingdom | 67,080 | 153,066 |
| Rest of Europe | - | 7,156 |
| | <u>67,080</u> | <u>160,222</u> |

4. Operating profit

The operating profit is stated after charging:

| | 2016 £000 | 2015 £000 |
|---|---------------|---------------|
| Defined contribution pension cost | - | 1,762 |
| Cost of stocks recognised as an expense (included in cost of sales) | 38,629 | 73,998 |
| | <u>38,629</u> | <u>73,998</u> |

During the year, no director received any emoluments (2015 - £NIL).

Notes to the financial statements
For the year ended 31 December 2016

5. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

| | 2016 £000 | 2015 £000 |
|-----------------------------------|--------------|--------------|
| Fees for the audit of the company | 131 | 132 |
| | <u>131</u> | <u>132</u> |

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company

6. Employees

Staff costs were as follows:

| | 2016 £000 | 2015 £000 |
|-------------------------------------|--------------|---------------|
| Wages and salaries | (37) | 7,730 |
| Social security costs | - | 746 |
| Cost of defined contribution scheme | - | 1,762 |
| | <u>(37)</u> | <u>10,238</u> |

The Company has no employees other than the directors, who did not receive any remuneration (2015 - £NIL).

The income in wages and salaries in 2016 represents a recovery of an overpayment from prior years.

7. Interest receivable

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Other interest receivable | 1 | 3 |
| Interest receivable from group companies | 378 | 386 |
| | <u>379</u> | <u>389</u> |

Microsoft Mobile UK Limited

Notes to the financial statements
For the year ended 31 December 2016

8. Interest payable and expenses

| | 2016 £000 | 2015 £000 |
|-----------------------------|--------------|--------------|
| Other loan interest payable | 91 | 75 |
| | <u>91</u> | <u>75</u> |

9. Other finance income

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Interest income on pension scheme assets | 11,462 | 10,827 |
| Net interest on net defined benefit liability | (8,551) | (8,303) |
| | <u>2,911</u> | <u>2,524</u> |

10. Taxation

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Corporation tax | | |
| Current tax on profits for the year | (2) | (570) |
| Adjustments in respect of previous periods | (181) | 1,573 |
| | <u>(183)</u> | <u>1,003</u> |
| Total current tax | <u>(183)</u> | <u>1,003</u> |
| Deferred tax | | |
| Changes to tax rates | (900) | (1,471) |
| Increase in discount | - | (154) |
| Current year | 1,206 | 2,645 |
| | <u>306</u> | <u>1,020</u> |
| Total deferred tax | <u>306</u> | <u>1,020</u> |
| Taxation on profit on ordinary activities | <u>123</u> | <u>2,023</u> |

Notes to the financial statements
For the year ended 31 December 2016

10. Taxation (continued)**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax | 4,815 | 6,201 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%) | 963 | 1,256 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 241 | 4 |
| Adjustments to tax charge in respect of prior periods | (181) | 1,418 |
| Tax rate changes | (900) | (1,503) |
| Non-taxable income | - | (783) |
| Loss on asset transferred out | - | 1,631 |
| Total tax charge for the year | 123 | 2,023 |

Factors that may affect future tax charges

The Finance Act 2013, which provided for a reduction in the main rate of corporation tax to 21% effective from 1 April 2014 and a further reduction to 20% effective from 1 April 2015, was enacted during 2013. The Finance (No.2) Act 2015, which provided for a reduction in the main rate of corporation tax to 19% effective from 1 April 2017 and further reduction to 18% from 1 April 2020, was enacted during 2015. The Finance Act 2016, which reduced the main rate of corporation tax to 17% from 1 April 2020 (replacing the 18% reduction) was enacted during 2016.

The deferred tax asset and liability are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and the tax laws) that have been enacted or substantively enacted by the balance sheet date. The deferred tax has therefore been calculated at 17%.

11. Debtors

| | 2016 £000 | 2015 £000 |
|------------------------------------|--------------|--------------|
| Trade debtors | 4,495 | 35,461 |
| Amounts owed by group undertakings | 36,058 | 53,339 |
| Other debtors | 620 | 10,026 |
| Prepayments and accrued income | 435 | 685 |

Notes to the financial statements
For the year ended 31 December 2016

11. Debtors (continued)

| | | |
|--|---------------|---------------|
| | <u>41,608</u> | <u>99,511</u> |
|--|---------------|---------------|

12. Cash and cash equivalents

| | | |
|--------------------------|-------------|--------------|
| | 2016 | 2015 |
| | £000 | £000 |
| Cash at bank and in hand | 518 | 1,858 |
| | <u>518</u> | <u>1,858</u> |

13. Creditors: Amounts falling due within one year

| | | |
|------------------------------------|---------------|---------------|
| | 2016 | 2015 |
| | £000 | £000 |
| Trade creditors | 386 | 13,128 |
| Amounts owed to group undertakings | 24,268 | 41,322 |
| Corporation tax | 215 | 398 |
| Accruals and deferred income | 863 | 17,563 |
| | <u>25,732</u> | <u>72,411</u> |

Amounts owed to Group undertaking relates to outstanding amounts for good and services supplied and paid for on behalf of the entity during the financial year. They are repayable on demand.

14. Deferred taxation

| | | |
|---------------------------------------|------------------------|------------------------|
| | 2016 | 2015 |
| | £000 | £000 |
| At beginning of year | (12,701) | (11,924) |
| Charged to profit or loss | (306) | (1,174) |
| Charged to other comprehensive income | 491 | 243 |
| Utilised in year | - | 154 |
| At end of year | <u>(12,516)</u> | <u>(12,701)</u> |

Microsoft Mobile UK Limited

**Notes to the financial statements
For the year ended 31 December 2016**

14. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

| | 2016 £000 | 2015 £000 |
|-------------------------------|-----------------|-----------------|
| Temporary differences pension | (12,516) | (12,701) |
| | <u>(12,516)</u> | <u>(12,701)</u> |

15. Provisions

| | Warranty £000 |
|------------------------|------------------|
| At 1 January 2016 | 11,531 |
| Utilised in the year | (1,571) |
| Released in the year | (9,960) |
| As at 31 December 2016 | <u>-</u> |

The company did not make a provision for warranty cost at the end of the year in relation to mobile devices sold. All the liability relating to care in the form of warranty has been transferred to Microsoft which operates central control care policy.

16. Share capital

| | 2016 £000 | 2015 £000 |
|---|---------------|---------------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 20,000,000 Ordinary shares of £1 each | <u>20,000</u> | <u>20,000</u> |

Notes to the financial statements
For the year ended 31 December 2016

17. 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 2010 and updated to 31 December 2015 by a qualified independent actuary.

The sponsoring employer for the defined benefit pension scheme is Microsoft Limited, a fellow subsidiary under common control, however throughout the year there has been a stated policy for charging the net defined benefit cost in full to Microsoft Mobile UK Limited. Therefore, the financial statements of Microsoft Mobile UK Limited include the full cost of the defined benefit pension scheme.

The assets of the scheme are held separately from those of Microsoft Mobile UK Limited, being managed by BlackRock, and Zurich Assurance Ltd.

Company contributions in respect of future service were 31.1% of pensionable salaries in respect of executive members and 21.2% of pensionable salaries in respect of other members.

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 2.7% assumption for 2016.

Composition of plan assets:

| | 2016 £000 | 2015 £000 |
|-----------------------------------|----------------|----------------|
| Cash and equivalents | 193 | 470 |
| Debt instruments | 359,986 | 287,464 |
| Fair value of plan assets | 360,179 | 287,934 |
| | 2016 £000 | 2015 £000 |
| Fair value of plan assets | 360,179 | 287,934 |
| Present value of plan liabilities | (286,554) | (217,373) |
| Net pension scheme assets | 73,625 | 70,561 |

Notes to the financial statements
For the year ended 31 December 2016

17. Pension commitments (continued)

The amounts recognised in profit or loss are as follows:

| | 2016 £000 | 2015 £000 |
|--|----------------|----------------|
| Current service cost | - | 401 |
| Interest on obligation | 8,551 | 8,303 |
| Expected return on scheme assets | (11,462) | (10,827) |
| Past service cost | - | (736) |
| Total | (2,911) | (2,859) |
| Effect of changes in financial assumptions | 77,422 | (11,076) |
| Effect of experience adjustments | (9,602) | (1,231) |
| Return on plan assets | (64,853) | 13,659 |
| | 2,967 | 1,352 |
| Total defined benefit cost recognised in P&L and OCI | 56 | (1,507) |

Reconciliation of fair value of plan liabilities were as follow:

| | 2016 £000 | 2015 £000 |
|--|----------------|----------------|
| Opening defined benefit obligation | 217,373 | 227,115 |
| Current service cost | - | 401 |
| Interest cost | 8,551 | 8,303 |
| Contributions by scheme participants | - | 1 |
| Past service costs | - | (736) |
| Effect of changes in financial assumptions | 77,422 | (11,076) |
| Effect of experience adjustments | (9,602) | (1,231) |
| Benefits paid | (7,190) | (5,404) |
| Closing defined benefit obligation | 286,554 | 217,373 |

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Notes to the financial statements
For the year ended 31 December 2016

17. Pension commitments (continued)

Reconciliation of fair value of plan assets were as follows:

| | 2016 £000 | 2015 £000 |
|--------------------------------------|----------------|----------------|
| Opening fair value of scheme assets | 287,934 | 294,484 |
| Interest income on plan assets | 11,462 | 10,827 |
| Contributions by employer | 3,120 | 1,685 |
| Contributions by scheme participants | - | 1 |
| Return on plan assets | 64,853 | (13,659) |
| Benefits paid | (7,190) | (5,404) |
| | <u>360,179</u> | <u>287,934</u> |

The Company expects to contribute £312,000 to its Defined Benefit Pension Scheme in 2017.

The projected defined benefit cost for the year ending 31 December 2017 is a credit of £2,051,000 compared to the credit of £2,911,000 for the year ending 31 December 2016. Although the funded status in the Scheme has improved, the lower discount rate results in a lower net interest cost and hence lower expected Statement of comprehensive income credit.

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**Notes to the financial statements
For the year ended 31 December 2016**

17. Pension commitments (continued)

Principal actuarial assumptions at the Balance sheet date (expressed as weighted averages):

| | 2016 | 2015 |
|--|------|------|
| | % | % |
| Discount rate at 31 March | 2.70 | 4.00 |
| Money purchase section projection rate | 4.65 | 5.50 |
| RPI Inflation | 3.20 | 3.10 |
| CPI Inflation | 2.30 | 2.20 |
| Deferred pension revaluation | 2.30 | 2.30 |
| Pension increases | | |
| - RPI max 5% | 3.20 | 3.10 |
| - RPI max 2.5% | 2.20 | 2.15 |
| - CPI max 3% | 2.30 | 2.20 |

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.

18. Controlling party

The immediate parent company is Microsoft Mobile UK Holdings Limited (formerly Nokia UK Holdings Limited), a company registered in England and Wales. The parent of Microsoft Mobile UK Holdings and head of the smallest group for which consolidated financial statements are prepared is Microsoft Mobile Oy, a company incorporated in Finland. The ultimate parent company, controlling party and head of the largest group including Microsoft Mobile UK Limited and for which consolidated financial statements are prepared is Microsoft Corporation, a company based in Redmond, Washington, USA.

19. Subsequent events

Subsequent to the year end the company has agreed to transfer the pension asset and all associated liabilities to Microsoft Limited. This will be settled at fair value through intercompany invoicing.