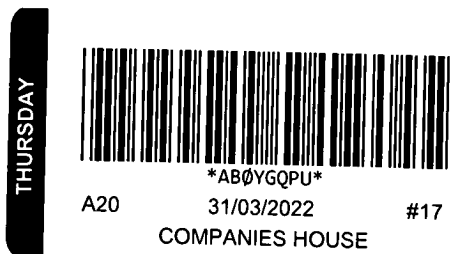


Registration number: 02611800

Microsoft Properties UK Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2021



Microsoft Properties UK Limited

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Microsoft Properties UK Limited

Company Information

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

Microsoft Properties UK Limited

Strategic Report for the Year Ended 30 June 2021

The directors present their strategic report for the year ended 30 June 2021.

Principal activity

Microsoft Properties UK Limited, a subsidiary of Microsoft Corporation, is engaged in property investment. The principal area of business activity is the United Kingdom.

Fair review of the business

The results for the year are shown on page 11. The Company recorded a profit before taxation of £488,000 (2020 - loss before taxation of £4,803,000). In the prior year, the value of the investment property was reviewed and an impairment of £6,648,000 recognised. The buildings have been sold during the year, in August 2020, for £16,000,000. The land, which is valued at £2,750,000, is currently held for sale. No further impairment has been recognised in the current year. The sale of the property has also resulted in the recognition of a deferred tax credit of £2,108,000 and further details can be found in note 11. The Directors intention is to cease the trading of the business with a plan to wind down its operating activities. Thus, the Financial Statements have been prepared on a basis other than going concern. The Company had net assets at 30 June 2021 of £11,002,000 (2020 - £8,405,500).

Key Performance indicators

The Directors do not monitor the performance of the Company at a statutory level through the use of key performance indicators (KPI's). The Microsoft group manages its business and manages the delivery of its strategic objectives through the application of KPI's at a business group level.

Strategy, objective and business model

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2021, which is publicly available at www.microsoft.com. The strategy of the Company is to sell its remaining assets held for sale and to wind down the Company.

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 performance. The Company has no significant borrowings or foreign exchange exposure.

Currency risk, credit risk and liquidity risk

Currency risk

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

Credit risk

The Company's principal financial assets are debtors from other group companies. The Company's credit risk is primarily attributable to its intercompany debtors. This is not considered a significant risk as the other group companies continue to perform well.

Liquidity risk

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

Microsoft Properties UK Limited

Strategic Report for the Year Ended 30 June 2021 (continued)

COVID-19

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. The pandemic continues to have widespread, and unpredictable impacts on global society, economies, financial markets and business practices. The impact of the ongoing COVID-19 pandemic on the market value of the land is uncertain and it may give rise to further impairment. No other impact is foreseen as the Company is operating on a basis other than a going concern, and the global and local crisis management teams put in place by Microsoft continue to monitor the COVID-19 situation and assess any additional impact on the Company.

Other risks

Other risks include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2021 Form 10-K.

Climate change

The Directors have considered the importance of climate change and how the Company, as it is being wound down, can contribute towards Microsoft's goal of becoming carbon negative by 2030.

Approved by the Board on ^{Mar 30, 2022} and signed on its behalf by:



.....
Clare L Barclay
Director

Microsoft Properties UK Limited

Directors' Report for the Year Ended 30 June 2021

The directors present their report and the audited financial statements for the year ended 30 June 2021.

Dividends

The directors do not approve a dividend for the period (2020 - £Nil).

Going concern

The Company has net assets as set out in the balance sheet on page 11. The Company is no longer operating as a going concern as the investment buildings were sold in August 2020 and therefore there will be no rental income in future years. The investment land is currently on the market for sale. The directors have prepared the annual report and accounts on a basis other than going concern. For further details see note 2 in the financial statements.

The Company has a letter of support from Microsoft Corporation that will guarantee it can meet all liabilities as it is being wound down, and will provide it with sufficient financing resources for at least 12 months from the date of signing.

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

Directors of the Company

The directors, who held office during the financial year, and up to the date of signing, were as follows :

Keith R Dolliver

Benjamin O Orndorff

Clare L Barclay

Cindy H Rose served as a director until 1st October 2020 and at this date was replaced as a director by Clare L Barclay.

Risk and uncertainties

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

Future developments

The Company is actively marketing the land held for resale and intends to wind down the Company once the land has been sold.

Disclosure of information to the auditors

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

Microsoft Properties UK Limited

Directors' Report for the Year Ended 30 June 2021 (continued)

Auditors

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

Approved by the Board on Mar 30, 2022 and signed on its behalf by:



.....
Clare L Barclay
Director

Microsoft Properties UK Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. The financial statements are required by law to 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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 proper accounting records that 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 Properties UK Limited

Independent Auditor's Report to the Members of Microsoft Properties UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Microsoft Properties UK Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2021 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 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

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

Basis for opinion

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

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

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

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of a basis of accounting other than that of a going concern in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Microsoft Properties UK Limited

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Microsoft Properties UK Limited

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal valuations specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Microsoft Properties UK Limited

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

Report on other legal and regulatory requirements

Opinion 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 Strategic report or the Director's 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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



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

30 March 2022
Date:.....

Microsoft Properties UK Limited

Profit and Loss Account for the Year Ended 30 June 2021

	Note	2021 £ 000	2020 £ 000
Turnover	4	501	3,007
Administrative expenses		(11)	(1,119)
Impairment of investment property		-	(6,648)
Operating profit/(loss)	5	490	(4,760)
Interest receivable and similar income	6	4	14
Interest payable and similar expenses	7	(6)	(57)
		(2)	(43)
Profit/(loss) before tax		488	(4,803)
Tax on profit/(loss)	11	2,109	(431)
Profit/(loss) for the year		2,597	(5,234)

The above results were derived from discontinued operations.

There are no income or expenses other than those shown in the Profit and Loss Account above and therefore no statement of comprehensive income is presented.

Microsoft Properties UK Limited

(Registration number: 02611800)

Balance Sheet as at 30 June 2021

	Note	30 June 2021 £ 000	30 June 2020 £ 000
Current assets			
Debtors	13	9,861	2,671
Assets held for sale	12	<u>2,750</u>	<u>18,750</u>
		12,611	21,421
Creditors: Amounts falling due within one year			
Trade and other payables	14	(1,609)	(10,908)
Deferred tax liability	11	<u>-</u>	<u>(2,108)</u>
Net current assets		<u>11,002</u>	<u>8,405</u>
Total assets less current liabilities		<u>11,002</u>	<u>8,405</u>
Net assets		<u>11,002</u>	<u>8,405</u>
Capital and reserves			
Called up share capital	15	23,942	23,942
Profit and loss account		<u>(12,940)</u>	<u>(15,537)</u>
Shareholders' funds		<u>11,002</u>	<u>8,405</u>

Approved by the Board on Mar 30, 2022 and signed on its behalf by:



.....
Clare L Barclay
Director

Microsoft Properties UK Limited

Statement of Changes in Equity for the Year Ended 30 June 2021

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 July 2020	23,942	(15,537)	8,405
Profit for the year	-	2,597	2,597
Total comprehensive income	-	2,597	2,597
At 30 June 2021	23,942	(12,940)	11,002

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 July 2019	23,942	(10,303)	13,639
Expense for the year	-	(5,234)	(5,234)
Total comprehensive Expense	-	(5,234)	(5,234)
At 30 June 2020	23,942	(15,537)	8,405

The notes on pages 14 to 25 form an integral part of these financial statements.

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021

1 General information

Microsoft Properties UK Limited ("the Company") is a private Company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 - 3. The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. These financial statements present information about the Company as an individual undertaking and not about its group. The group accounts of Microsoft Corporation can be obtained as set out in Note 17.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The Directors' intention is to cease the trading of the business and wind down its operating activities. Thus, the annual financial statements have been prepared on a basis other than going concern. All liabilities and assets are presented as current.

Summary of disclosure exemptions

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

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, and investment properties;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions within the group; and
- Certain disclosures required by IAS 36 Impairment of Assets, IFRS 13 Fair Value Measurement, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 16 Leases, and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 17.

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

2 Accounting policies (continued)

Changes in accounting policy

There have been no significant changes in accounting policy during the year.

Measurement convention

The financial statements are prepared on a basis other than a going concern and as such all amounts will be recognised at realisable value.

Going concern

The Company has net assets as set out in the balance sheet on page 11. The Company's business activities, together with the factors likely to affect its future development and position, are set out in its strategic report on page 2. The Company's investment buildings were sold in August 2020 and therefore there will be no rental income in future years. The investment land is currently on the market for sale. The Directors have assessed that the Company's principal activity has ceased. Thus, the annual financial statements have been prepared on a basis other than going concern. No adjustments arose as a result of ceasing to apply the going concern basis.

The Company has a letter of support from Microsoft Corporation that will guarantee it can meet all liabilities as it is being wound down, and will provide it with sufficient financing resources for at least 12 months from the date of signing.

Turnover

Turnover, which excludes value added tax, represents the value of rental services provided in the period.

Turnover is recognised straight line over the course of the contracted lease term.

Interest income

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

Foreign currencies

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

2 Accounting policies (continued)

Tax

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

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

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

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

Assets held for sale

The assets held for sale are measured and recognised in accordance with IFRS 5 Non-Current Assets Held for Sale. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses are recognised in the income statement under other operating expenses.

Provisions

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

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

Share capital

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

Dividends

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets

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

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

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

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

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

Financial liabilities

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

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

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

2 Accounting policies (continued)

Classification and measurement

Financial assets

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

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

Financial liabilities

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

Loans and borrowings

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

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

Payables are measured at amortised cost.

Financial assets at amortised cost

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

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

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

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

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

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

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

2 Accounting policies (continued)

Derecognition

Financial assets

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

Financial liabilities

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

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

For trade receivables and contract assets, the Company applies the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Offsetting of financial instruments

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The directors believe the key sources of estimation uncertainty lie in respect of the valuation of the land which is held for sale.

With the exception of the above, the directors believe there are no critical accounting judgements and no other key sources of estimation uncertainty.

4 Turnover

The analysis of the Company's turnover for the year from discontinued operations is as follows:

	2021	2020
	£ 000	£ 000
Rental income from investment property	501	3,007

Turnover represents rental income arising in the United Kingdom which is wholly derived from the principal activity.

5 Profit/(loss) for the year

Arrived at after charging/(crediting)

	2021	2020
	£ 000	£ 000
Depreciation expense	-	1,104
Auditors remuneration for audit services (note 10)	11	15

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

6 Other interest receivable and similar income

	2021 £ 000	2020 £ 000
Interest receivable from group undertakings	<u>4</u>	<u>14</u>

7 Interest payable and similar expenses

	2021 £ 000	2020 £ 000
Interest payable to group undertakings	<u>6</u>	<u>57</u>

8 Staff costs

The Company had no employees in either the current or preceding year.

9 Directors' remuneration

None of the directors received any remuneration in respect of qualifying services as directors of the Company in the current year or in the prior year and none of the directors have any employment contracts with the Company.

No contributions were made to a defined contribution pension scheme on behalf of the directors (2020 - £Nil).

10 Auditors' remuneration

	2021 £ 000	2020 £ 000
Audit of the financial statements	<u>11</u>	<u>15</u>

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

11 Taxation

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

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	(1)	526
Deferred taxation		
Arising from origination and reversal of temporary differences	<u>(2,108)</u>	<u>(95)</u>
Tax (receipt)/expense in the profit and loss account	<u>(2,109)</u>	<u>431</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2020 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2021 £ 000	2020 £ 000
Profit/(loss) before tax	<u>488</u>	<u>(4,803)</u>
Corporation tax at standard rate	93	(913)
Decrease in current tax from adjustment for prior periods	(1)	(1)
(Decrease)/increase from effect of expenses not deductible in determining taxable profit (tax loss)	(2,073)	1,374
Deferred tax credit from unrecognised temporary difference from a prior period	<u>(128)</u>	<u>(29)</u>
Total tax (credit)/charge	<u>(2,109)</u>	<u>431</u>

Deferred tax movement during the year:

	At 1 July 2020 £ 000	Recognised in income £ 000	At 30 June 2021 £ 000
Timing differences in respect of capital allowances	<u>2,108</u>	<u>(2,108)</u>	<u>-</u>

The Financial Statements have been prepared on a basis other than a going concern, hence the deferred tax liability is presented as current at 30 June 2021.

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

12 Assets held for sale

	30 June 2021 £ 000	30 June 2020 £ 000
Property, plant and equipment	18,750	18,750
Disposal of buildings	<u>(16,000)</u>	<u>-</u>
Assets held for sale	<u>2,750</u>	<u>18,750</u>

Assets held for sale consist of land and buildings previously classified as investment property. The assets were initially recognised at cost less depreciation and impairment, and subsequent to classification as held for sale measured at the lower of carrying amount and fair value less costs to sell. Accordingly, no further impairment has been recognised in other operating expenses in the year. The valuation of the assets held for sale represent £2,750,000 for the land.

13 Debtors

	30 June 2021 £ 000	30 June 2020 £ 000
Amounts owed by group undertakings	9,860	2,671
Corporation tax asset	<u>1</u>	<u>-</u>
	<u>9,861</u>	<u>2,671</u>

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

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

14 Creditors: amounts falling due within one year

	30 June 2021 £ 000	30 June 2020 £ 000
Corporation tax liability	-	527
Accrued expenses	28	15
Amounts due to group undertakings	1,581	10,366
Deferred tax liability	-	2,108
	<u>1,609</u>	<u>13,016</u>

Intercompany creditors are repayable on demand. These amounts are unsecured.

15 Share capital

Allotted, called up and fully paid shares

	No. 000	30 June 2021 £ 000	No. 000	30 June 2020 £ 000
Ordinary shares of £1 each	50	50	50	50
Redeemable ordinary shares of £1 each	<u>23,892</u>	<u>23,892</u>	<u>23,892</u>	<u>23,892</u>
	<u>23,942</u>	<u>23,942</u>	<u>23,942</u>	<u>23,942</u>

Authorised share capital

The authorised share capital of the Company was 23,942,000 shares of £1 each (2020 - 23,942,000 shares of £1 each).

Rights, preferences and restrictions

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

The redeemable shares have attached to them full voting, dividend and capital distribution rights. They may be redeemed at par by the Company providing not less than one month's written notice to the shareholders. In all other respects they rank pari passu with ordinary shares.

Microsoft Properties UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (continued)

16 Related party transactions

As at 30 June 2021 and 30 June 2020, 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 13 and 14.

17 Parent and ultimate parent undertaking

The immediate and ultimate parent undertaking of the Company which is also the controlling party is Microsoft Corporation, a Company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the investor relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.