

Company Registration No. 04618485

MICROSOFT SYSTEM MARKETING LIMITED

**Annual Report and Financial Statements
Year ended 30 June 2018**

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MICROSOFT SYSTEM MARKETING LIMITED

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MICROSOFT SYSTEM MARKETING LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	K R Dolliver B O Omdorff C H Rose
SECRETARY	Reed Smith Corporate Services Limited
COMPANY NUMBER	04618485 (UK)
REGISTERED OFFICE	The Broadgate Tower Third Floor 20 Primrose Street, London EC2A 2RS
AUDITOR	Deloitte LLP Statutory Auditor 1 Station Square Cambridge UK CB1 2GA
SOLICITORS	Reed Smith LLP Beaufort House 15 St Botolph Street London EC3A 7EE Olswang Solicitors 90 High Holborn London WC1V 6XX Osborne Clark Apex Plaza Forbury Road Reading Berkshire RG1 1AX
TAX ADVISERS	KPMG LLP Arlington Business Park Theale Berkshire RG7 4SD

MICROSOFT SYSTEM MARKETING LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 June 2018.

BUSINESS REVIEW

The primary purpose of the company is to provide marketing and support services to other group companies. Turnover for the year amounted to £1,926k (2017: £1,574k) with a profit after taxation of £473k (2017: £643k). The results for the year and financial position of the company are shown on pages 8 and 9. The company is soundly placed to continue its current activities.

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, OBJECTIVES AND BUSINESS MODEL

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2018, which is publicly available. Microsoft System Marketing Limited's business model is expected to remain consistent as it continues to provide marketing and support services to Microsoft's UK customer base.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's activities expose it to a number of financial risks including cash flow, credit, liquidity and market. The Company does not use derivative financial instruments for speculative purposes or to hedge these risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation.

Cash flow risk

The Company's activities expose it primarily to the financial risk of changes in foreign currency exchange rates. Interest bearing assets are held at fixed rates to ensure certainty of cash flows.

Credit risk

The Company's principal financial assets are bank balances and other debtors. The Company's credit risk is primarily attributable to its intercompany debtors; this is not considered a significant risk as the performance of other group companies continues to be strong.

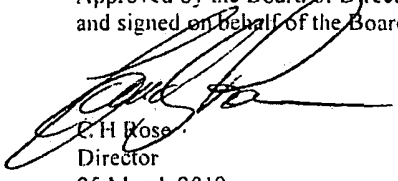
Liquidity risk

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

Market risk

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and wider long-term market trends. The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

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



E. H. Rose
Director
25 March 2019

MICROSOFT SYSTEM MARKETING LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2018.

GOING CONCERN

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

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

RISKS AND UNCERTAINTIES

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

FUTURE PROSPECTS

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

DIVIDENDS

The directors approved a dividend for the year of £643k (2017: £527k).

DIRECTORS

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

REAPPOINTMENT OF AUDITOR

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

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



C.H. Rose
Director

25 March 2019

MICROSOFT SYSTEM MARKETING LIMITED

Directors' Responsibilities Statement

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

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

MICROSOFT SYSTEM MARKETING LIMITED

Independent Auditor's Report to the Members of Microsoft System Marketing Limited **Report on the audit of the financial statements**

Opinion

In our opinion the financial statements of Microsoft System Marketing (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 30/06/2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 14.

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 (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

MICROSOFT SYSTEM MARKETING LIMITED

Independent Auditor's Report (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

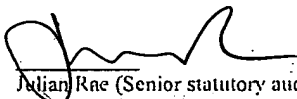
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Use of our report

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

MICROSOFT SYSTEM MARKETING LIMITED



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

Date: 25 March 2019

MICROSOFT SYSTEM MARKETING LIMITED

Profit and Loss Account for the Year Ended 30 June 2018

	Note	2018 £ 000	2017 £ 000
Turnover	2	1,926	1,574
Administrative expenses		(1,356)	(780)
Other interest receivable and similar income	5	<u>10</u>	<u>5</u>
Profit before tax	3	580	799
Tax on profit	6	<u>(107)</u>	<u>(156)</u>
Profit for the year		<u><u>473</u></u>	<u><u>643</u></u>

The above results were derived from continuing operations.

There was no comprehensive income or expenses other than those shown in the Profit and Loss Account above and therefore no Statement of Comprehensive Income is presented.

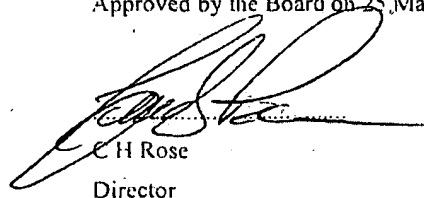
MICROSOFT SYSTEM MARKETING LIMITED

Balance Sheet as at 30 June 2018

	Note	2018 £ 000	2017 £ 000
Non current assets			
Deferred tax assets	7	<u>31</u>	<u>16</u>
Current assets			
Debtors	8	1,450	1,436
Creditors			
Creditors: amounts falling due within one year	10	(339)	(228)
Corporation Tax		<u>(22)</u>	<u>(37)</u>
		<u>(361)</u>	<u>(265)</u>
Net current assets		<u>1,089</u>	<u>1,171</u>
Total assets less current liabilities		<u>1,120</u>	<u>1,187</u>
Net assets		<u>1,120</u>	<u>1,187</u>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account		<u>1,120</u>	<u>1,187</u>
Shareholders' funds		<u>1,120</u>	<u>1,187</u>

The financial statements of Microsoft System Marketing Limited, registration number 04618485, were approved and authorised for issue by the Board of Directors.

Approved by the Board on 25 March 2019 and signed on its behalf by:


C H Rose
Director

MICROSOFT SYSTEM MARKETING LIMITED

Statement of Changes in Equity for the Year Ended 30 June 2018

	Called Up Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2016	-	1,013	1,013
Total comprehensive income for the year			
Profit for the year	-	643	643
Total comprehensive income	-	643	643
Dividends (note 9)	-	(527)	(527)
Tax on share-based payment transactions	-	10	10
Share based payment - contribution received	-	48	48
Total contributions by and distributions to owners	-	(469)	(469)
At 30 June 2017	-	1,187	1,187

	Called Up Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2017	-	1,187	1,187
Total comprehensive income for the year			
Profit for the year	-	473	473
Total comprehensive income	-	473	473
Dividends (note 9)	-	(643)	(643)
Tax on share-based payment transactions	-	21	21
Share based payment - contribution received	-	82	82
Total contributions by and distributions to owners	-	(540)	(540)
At 30 June 2018	-	1,120	1,120

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **Year ended 30 June 2018**

1 ACCOUNTING POLICIES

Basis of preparation

Microsoft System Marketing Limited (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered offices is shown on page 1.

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

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

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

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

Summary of disclosure exemptions

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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

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

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

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **Year ended 30 June 2018**

1. ACCOUNTING POLICIES (continued)

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

Measurement convention

The financial statements are prepared on the historical cost basis, amended for certain items at fair value (share based payments).

Going concern

The company had a profit after tax in the year of £473k (2017: £643k) and was in a net asset position of £1,120k (2017: £1,187k).

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

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

Turnover

Turnover includes commission income receivable and amounts derived from a fellow group subsidiary in Ireland based on the greater of a revenue basis or a mark-up on total costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

Taxation

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

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

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

Pension scheme

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

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2018

1. ACCOUNTING POLICIES (continued)

Financial instruments

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

Share-based payments

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

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

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Refer to note 12 for details of how the fair value of awards is determined.

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Finance income and costs policy

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.

Dividends

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) Year ended 30 June 2018

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

2 TURNOVER

Turnover is attributable to the provision of marketing and support services to group companies. It represents commission receivable by the company under agreements with a fellow subsidiary in Ireland. The commission is calculated on the greater of a revenue or cost plus basis. Revenue basis is a sales commission based on products sold through pre-defined channels.

3 PROFIT FOR THE FINANCIAL YEAR

	2018 £ 000	2017 £ 000
Profit for the financial year is stated after charging/(crediting)		
Foreign exchange gains	-	(1)
Auditor's remuneration for audit services	20	19

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2018 No.	2017 No.
Average monthly number of persons employed		
Sales and distribution	7	5

	2018 £ 000	2017 £ 000
Staff costs		
Wages and salaries	955	517
Social security costs	109	56
Pension costs, defined contribution scheme	100	58
	1,164	631

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 (2017: none).

The share-based payment charge for the year was £81k (2017: £48k). refer to note 12.

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2018

5 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £ 000	2017 £ 000
Interest receivable from parent company	5	-
Interest receivable from fellow group undertakings	5	5
	<u>10</u>	<u>5</u>

6 TAX ON PROFIT

Tax charged in the profit and loss account

	2018 £ 000	2017 £ 000
UK corporation tax	113	160
UK corporation tax adjustment to prior periods	-	(2)
Total current tax	<u>113</u>	<u>158</u>
Deferred taxation		
Deferred Tax - current year (note 7)	<u>(6)</u>	<u>(2)</u>
Tax expense in the profit and loss account	<u>107</u>	<u>156</u>

Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2017: 19.75%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

Details in changes in future tax rates are included in note 7.

	2018 £ 000	2017 £ 000
Profit before tax	<u>580</u>	<u>799</u>
Corporation tax at standard rate	110	158
Share schemes	(4)	-
Prior year adjustment	-	(2)
Deferred tax expense (credit) relating to changes in tax rates or laws	<u>1</u>	<u>-</u>
Total tax charge	<u>107</u>	<u>156</u>

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

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) Year ended 30 June 2018

7 DEFERRED TAX

The deferred tax asset consists of the following amounts:

	2018 £ 000	2017 £ 000
Timing differences in respect of capital allowances	-	1
Share-based payments	31	15
	<u>31</u>	<u>16</u>
		2018 £ 000
Balance at 30 June 2017		16
Credited to the profit and loss account in the year		6
Credited through equity		<u>9</u>
Balance at 30 June 2018		<u>31</u>

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

8 DEBTORS

	2018 £ 000	2017 £ 000
Amounts owed by fellow group undertakings	<u>1,450</u>	<u>1,436</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.

9 DIVIDENDS

	2018 £ 000	2017 £ 000
Paid - £643,000 per equity ordinary share (2017; £527,000 per equity ordinary share)	<u>643</u>	<u>527</u>

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2018

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £ 000	2017 £ 000
Other creditors	1	8
Other taxation and social security	99	50
Accrued expenses	239	143
Amounts due to related parties	-	27
	<u>339</u>	<u>228</u>

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

11 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid shares

	2018 £ 000	2017 £ 000
1 ordinary share of £1 each	-	-
	<u>2018 £ 000</u>	<u>2017 £ 000</u>
Authorised shares		
5,000 authorised shares of £1 each	<u>5</u>	<u>5</u>

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

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

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2018

12 SHARE BASED PAYMENTS

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

Share Awards

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

	2018 Number	2017 Number
Outstanding, start of period	3,829	3,551
Granted during the period	1,498	1,183
Transferred in, during the period	2,827	570
Exercised during the period	(2,586)	(1,475)
Outstanding, end of period	<u>5,568</u>	<u>3,829</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2018 was \$81.76 (2017: \$59.78). The unvested awards as at 30 June 2018 had a weighted average remaining contractual life of 2.62 years (2017: 2.77 years).

In both 2018 and 2017 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was \$112k (2017: \$68.0k).

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

The company recognised total expenses of £81k and £48k in relation to share award transactions during 2018 and 2017 respectively.

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

Employee share purchase plan

The company recognised a further £712 (2017: £674) relating to the employee share purchase plan during the year

13 RELATED PARTY TRANSACTIONS

As at 30 June 2018 and 30 June 2017, 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 8 and 10.

MICROSOFT SYSTEM MARKETING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2018

14 PARENT AND ULTIMATE CONTROLLING PARTY

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