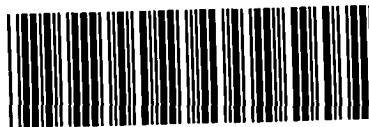


Company Registration No. 07057499 (England and Wales)

Playground Games Limited

**Annual report and financial statements
for the year ended 31 December 2022**

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Playground Games Limited

Company information

Directors	Benjamin Orndorff Keith Dolliver
Secretary	Reed Smith Corporate Services Limited
Company number	07057499
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London United Kingdom EC2A 2RS
Independent auditor	Deloitte LLP Abbots House Abbey Street Reading RG1 3BD United Kingdom

Playground Games Limited

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Playground Games Limited

Strategic report

For the year ended 31 December 2022

The directors present the strategic report for the year ended 31 December 2022.

Fair review of the business

The primary purpose of Playground Games Limited "the Company" is the writing and development of video games software.

In the year the Company made a profit before taxation of £766,123 (2021 Restated: £3,527,559). The reason for the reduction in profit before taxation was primarily down to the absence of any dividend income being received within 2022. Turnover has increased to £40,582,136 (2021 Restated: £33,195,860) as the company continues to scale and hire. The company continued to maintain a strong balance sheet and had net assets as of 31st December 2022 of £14,263,173 (2021 Restated: £14,077,580), assets have increased by £633,955 being offset in part by the increase in creditors of £448,362.

In the year ended 31 December 2022 the Company continued development on Forza Horizon 5 with monthly content releases, which have been very successful. The Company also continued development on Fable.

The Company operated as a key strategic entity, developing products to requirements specified by its holding company with the main aim of increasing market share and profitability for the Group.

The Company continues to perform to plan and is monitored by its holding company by way of a three year rolling plan.

The Company continues to work to maximise the potential of the Playground studio's innovation in the electronic gaming sector.

Key performance indicators

The Directors analyse headcount growth and operating expenses as the key performance indicators of the entity. Headcount grew from an average of 316 heads in 2021 to 358 heads in 2022. While operating expenses have also increased, the people cost as a percentage of total operating costs remains consistent at 75%.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft group companies; their performance continues to be strong and there is not considered to be a significant risk to the Company's continuing profitability. The Company has no significant borrowings or foreign exchange exposure.

Playground Games Limited

Strategic report (continued)

For the year ended 31 December 2022

Financial risks management

The Company's activities expose it to a number of financial risks including 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. Financial risks of changes in foreign currency exchange rates are also mitigated by short payment terms by its parent company.

Credit risk

The Company's principal financial assets are amounts owed by group undertakings. 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 representing diverse backgrounds, experiences and skill sets and developing new technology to mitigate these risks.

Brexit

The Company has concluded that, with the exception of some friction and an increase in associated costs in engaging and hiring new staff from the EU, there is no envisaged short term substantial risk to operations. However, given the uncertainty surrounding the impact of EU Exit in the medium to long-term, we continue to maintain a watching brief to monitor changes and to facilitate the early identification and implementation of any required mitigations.

War in Ukraine

On February 24, 2022 Russia invaded the country of Ukraine. the ongoing conflict has had no material impact on these financial statements and Management continues to monitor the situation.

Other risks

Other risks include cyber-attacks, security vulnerabilities, outages, data losses, and supply problems which could lead to increased costs, liability claims, or harm to our competitive position. To mitigate these risks our internal IT team maintain the highest levels of security of our information technology systems and products. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2023 Form 10-K.

Employees

Attracting and retaining talented and diverse employees is critical to the Company's long-term success. To support this the Company seeks to create a respectful, rewarding, diverse and inclusive work environment. This is focused around the concept of a growth mindset which starts with a belief that everyone can grow and develop. Employee feedback is sought in multiple ways, with the feedback used by the Senior Leadership Team and individual Managers to further improve areas of strength and address opportunities for improvement.

Playground Games Limited

Strategic report (continued)

For the year ended 31 December 2022

Environment

The directors have considered the importance of climate change and working towards Microsoft's strategy for a sustainable future which focuses on climate, ecosystems, water and waste. On climate, this includes a commitment to becoming carbon negative by 2023, shifting to 100% renewable energy by 2025 and investing in new technologies and innovate sustainability solutions.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. The Directors acknowledge their responsibility, and the following disclosure sets out how the Directors have regards to the matters set out in section 172 (1) (a)-(f).

The Company is a subsidiary of the Microsoft group and therefore consideration of stakeholder engagement is intrinsically linked to the wider Microsoft strategy in order to achieve a greater aligned impact. Microsoft seek to ensure that stakeholder voice are considered and gain input and outside perspectives into the Company to inform business decisions through a variety of feedback channels. Microsoft is committed to conducting business in a way that is principled, transparent and accountable and the foundations of this commitment is expressed in Microsoft's Standards of Business Conduct which apply to all employees. These standards require legal compliance and also broader commitments to address accessibility, diversity and inclusion, human rights and privacy. In support of these standards Microsoft strive to build a workplace that embraces trust where every employee feels free to ask questions and raise concerns when something doesn't seem right. Microsoft offers employees, customers, suppliers and other external parties' multiple ways to report compliance concerns.

Playground Games Limited is wholly owned and it keeps its shareholder regularly informed.

Customers

Microsoft is the sole customer of the Company, however their feedback and insights are critical in shaping how the business enhances existing products and services and develop new ones.

Employees

Attracting and retaining talented and diverse employees is critical to the Company's long-term success. To support this the Company seeks to create a respectful, rewarding, diverse and inclusive work environment. This is focused around the concept of a growth mindset which starts with a belief that everyone can grow and develop. Employee feedback is sought in multiple ways including an annual employee engagement survey. The senior leadership team and individual managers use this feedback to further improve areas of strength and address opportunities for improvement.

Suppliers

The Company extends the expectations of high standards of business conduct to the suppliers they do business with through requiring them to uphold human rights, labour, health and safety, environment, and business ethics practises in our Supplier Code of Conduct.

Environment

The directors have considered the importance of climate change and working towards the ultimate parent company, Microsoft's strategy, for a sustainable future which focuses on climate, ecosystems, water, and waste.

Playground Games Limited

Strategic report (continued)

For the year ended 31 December 2022

Approved for issue by the board of directors and signed on its behalf by


Benjamin Orndorff
Director

Date: 1 December 2023

Playground Games Limited

Directors' report

For the year ended 31 December 2022

The directors present their Annual Report and audited financial statements of Playground Games Limited (the "Company") for the year ended 31 December 2022.

Results and dividends

The results for the year are set out on page 13.

The Company paid ordinary dividends of £nil during the year (2021: £20,000,000). The directors do not recommend payment of a final dividend (2021: £nil).

Directors

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

Benjamin Orndorff
Keith Dolliver

Risk management

It is a primary objective and policy of the directors of the Company to identify financial risks and investigate suitable procedures to minimise the perceived risk. In the video games software industry there is a financial risk inherent in the costs incurred in producing software prior to sales. The directors have put in place safeguards to minimise the Company's exposure to risk. Please see the Strategic Report for further details on risk management.

Future developments

The Company will continue with the principal activities as outlined in the strategic report. The Company continues to do business with other group companies and the board is looking forward to sustaining the level of revenue and profits in the following years.

Going concern

The Company runs on a guaranteed earnings commission model with Microsoft, however is reliant on Microsoft as a sole customer.

At the time of approving the financial statements, the Company has a letter of support that Microsoft Corporation will guarantee the solvency of the Company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and Microsoft Corporation have adequate resources to continue in operational existence for the foreseeable future at least no less than 12 months from the signing of these financial statements. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

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

Employment of disabled persons

Employment policies are designed to provide equal opportunity, irrespective of age, sex, religion, race or marital status. Applications for employment by disabled persons are given full and fair consideration and, where practicable, provision is made for special needs. The Company applies the same criteria to disabled employees for training, career development and promotion as to any other employee. If existing employees become disabled, every effort is made to ensure their continued employment.

Employee Involvement

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the wider Group. This is achieved through formal and informal meetings and internal communications, these include quarterly 'Ask Me Anything' briefings and the running of several ERG's (Employee Resource Groups).

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

Encouragement is given to employees to contribute towards the Company's financial performance by means of an annual bonus scheme for certain employees.

There is no employee share scheme at present, but the directors are considering the introduction of such a scheme as a means of further encouraging the involvement of employees in the company's performance.

Engagement with suppliers, customers and others

Information on engagement with customers, employees and suppliers is set out within the Section 172(1) Statement of the Strategic report.

Environmental report

Emissions and energy consumption

Microsoft's greenhouse gas (GHG) inventory calculations are compiled according to the GHG Protocol Corporate Accounting and Reporting Standard and the GHG Protocol Scope 2 Guidance: An amendment to GHG Protocol Corporate Standard.

Microsoft calculates emissions primarily using metered activity data, but estimates based on appropriate proxies (such as office floor and data center IT capacity) where metered activity data is not available. For the UK GHG inventory, Microsoft uses emissions factors from the US EPA's Emission Factor Hub to calculate Scope 1 emissions, and the electricity emissions factor annually provided by the UK's Defra to calculate Scope 2 emissions. The global warming potential (GWP) used to characterize impacts from CH₄, N₂O, and fugitive refrigerants are based on the IPCC's Fourth Assessment Report (AR4).

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December 2022:

Playground Games Limited

Directors' report (continued)

For the year ended 31 December 2022

Name and Description	Unit of measurement	2022	2021
Scope 1 (direct) GHG emissions	Metric Tons CO2e	23	n/a
Scope 2 (indirect location based) GHG emissions	Metric Tons CO2e	342	n/a
Energy consumption	MWh	1,897	n/a
Emission Intensity Ratio	Metric Tons CO2e/ GBP revenue in millions	9	n/a

Energy efficiency actions taken

During 2022 we have taken a small number of steps to improve energy efficiency, these predominantly involved replacing old lighting with new LED lights.

Auditor

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

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

It has been concluded that the year ended 31 December 2022 will be the last year of Deloitte LLP's term in office and that another auditor will be appointed for the year ended 31 December 2023.

Statement of directors' responsibilities

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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board



Benjamin Orndorff
Director

Date: 1 December 2023

Playground Games Limited

Independent auditor's report

To the members of Playground Games Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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 102 "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 statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Playground Games Limited

Independent auditor's report (continued)

To the members of Playground Games Limited

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.

Playground Games Limited

Independent auditor's report (continued)

To the members of Playground Games Limited

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 and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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, pensions legislation, 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. These included Bribery Act, health and safety laws and general data protection regulations (GDPR).

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

As a result of performing the above, we identified the greatest potential for fraud to be payroll expenses. Payroll expenses represent a significant portion of the costs recharged and hence, and there is potential for inclusion of fictitious employees. To address this risk, we performed the procedures below:

- Test of joiners and leavers during the year to confirm the validity of payroll expense.
- Verification of existence of employees to confirm the validity of payroll expense.
- Create an expectation of the payroll expense and agreed to amounts recognised to confirm the accuracy and completeness of payroll expense.

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 in-house 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.
-

Playground Games Limited

Independent auditor's report (continued)
To the members of Playground Games Limited

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

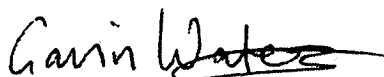
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



Gavin Waters, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

Date: 1 December 2023

Playground Games Limited**Statement of comprehensive income
For the year ended 31 December 2022**

		2022	2021
	Notes	£	as restated £
Turnover	4	40,582,136	33,195,860
Cost of sales		(27,715,927)	(22,620,656)
Gross profit		12,866,209	10,575,204
Administrative expenses		(12,137,793)	(10,055,998)
Operating profit	6	728,416	519,206
Interest receivable and similar income	9	37,707	3,008,353
Profit before taxation		766,123	3,527,559
Tax charge/(credit) on profit	10	(580,530)	738,547
Profit for the financial year		185,593	4,266,106

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There was no other comprehensive income for 2022 (2021: £nil).

The notes on pages 16 to 30 form part of these financial statements.

Playground Games Limited

Balance sheet

As at 31 December 2022

		2022		2021	
	Notes	£	£	as restated	£
Fixed assets					
Tangible assets	12	5,052,828		5,958,101	
Investments	13		1		1
		5,052,829		5,958,102	
Current assets					
Debtors	15	13,120,685		11,580,954	
Cash at bank and in hand		6,695		7,198	
		13,127,380		11,588,152	
Creditors: amounts falling due within one year	16	(3,917,036)		(3,468,674)	
Net current assets		9,210,344		8,119,478	
Total assets less current liabilities		14,263,173		14,077,580	
Net assets		14,263,173		14,077,580	
Capital and reserves					
Called up share capital	18	14,280		14,280	
Profit and loss account		14,248,893		14,063,300	
Total equity		14,263,173		14,077,580	

The notes on pages 16 to 30 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 1 Dec 2023 and are signed on its behalf by:

Benjamin Orndorff
Director

Company Registration No. 07057499

Playground Games Limited**Statement of changes in equity
For the year ended 31 December 2022**

		Share capital	Profit and loss reserves	Total
	Notes	£	£	£
As restated for the period ended 31 December 2021:				
At 1 January 2021		14,280	29,797,194	29,811,474
Profit and total comprehensive expense for the year		-	1,173,836	1,173,836
Dividends	5	-	(20,000,000)	(20,000,000)
At 31 December 2021 as previously stated		14,280	10,971,030	10,985,310
Changes due to prior period error		-	3,092,270	3,092,270
At 31 December 2021 as restated		14,280	14,063,300	14,077,580
Profit and total comprehensive income for the year		-	185,593	185,593
At 31 December 2022		14,280	14,248,893	14,263,173

The notes on pages 16 to 30 form part of these financial statements.

Playground Games Limited

Notes to the financial statements

For the year ended 31 December 2022

1 General information

Playground Games Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006. The registered office is The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS. The principal activity of the company is the writing and development of video games software.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis.

These financial statements have been prepared in compliance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The financial statements are prepared in sterling, which is the functional currency of the entity. Monetary amounts in these financial statements are rounded to the nearest £.

2.2 Consolidation

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its ultimate parent, Microsoft Corporation, which may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

Under s401 the Company is not required to prepare consolidated financial statements.

2.3 Going concern

The Company runs on a guaranteed earnings commission model with Microsoft, however is reliant on Microsoft as a sole customer.

At the time of approving the financial statements, the Company has a letter of support that Microsoft Corporation will guarantee the solvency of the Company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and Microsoft Corporation have adequate resources to continue in operational existence for the foreseeable future at least no less than 12 months from the signing of these financial statements. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

2.4 Turnover

Turnover represents commission received from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred (on an arm's length basis) and recharges received from the subsidiary company based on costs incurred. Revenue is recognised in the period in which the costs are incurred.

2 Accounting policies (continued)

2.5 Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefit will flow to the Group and the amount of revenue can be measured reliably).

2.6 Taxation

The tax expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case tax is recognised in other comprehensive income or directly in capital and reserves, respectively.

Current tax

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of timing difference.

2.7 Foreign currencies

Foreign currency transactions are initially recorded in functional currency, applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

2.8 Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of the lease incentives is recognised as reduction to expense over the lease term, on a straight-line basis.

2.9 Tangible fixed assets

Tangible fixed assets are initially recorded at cost and subsequently stated at cost less any accumulated depreciation and impairment losses.

2 Accounting policies (continued)

Depreciation

Depreciation is calculated so as to write off the cost or valuation of assets less their residual value over the useful economic life of that asset as follows:

Leasehold improvements	straight line over the life of the lease
Fixtures and fittings	20% straight line
Computer equipment	33% straight line

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

2.10 Fixed asset investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

2.11 Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event; it is probable that the entity will be required to transfer economic benefits in a settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in the profit or loss unless the provision was originally recognised as a part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised in the finance costs in the profit or loss in the period it arises.

2.12 Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised in finance costs in the profit or loss in the period in which it arises.

2 Accounting policies (continued)

2.13 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements as permitted by the FRS 102 'The financial Reporting Standard applicable in the UK and Republic of Ireland':

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b), 12.29A, and 12.30;
- the requirements of Section 26 Share-based payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- the requirements of Section 33 'Related Party Disclosures': paragraph 33.7.

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Microsoft Corporation as at 30 June 2022. These financial statements are available to the public and can be obtained as set out in note 22.

2.14 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

2.15 Financial instruments

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

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

2 Accounting policies (continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

2.16 Finance Income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on 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.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2022

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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 directors do not consider there to be any critical accounting judgements or estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

4 Turnover

	2022	2021
		as restated
	£	£
Turnover analysed by class of business		
Recharges to subsidiary	30,532,480	25,145,930
Commission received	10,049,656	8,049,930
	<u>40,582,136</u>	<u>33,195,860</u>
	2022	2021
		as restated
	£	£
Turnover analysed by geographical market		
United Kingdom	30,532,480	25,145,930
United States of America	10,049,656	8,049,930
	<u>40,582,136</u>	<u>33,195,860</u>

5 Dividends

	2022	2021
	£	£
Dividends received	-	3,000,000

Playground Games Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

6 Operating profit

	2022	2021
	£	£
Operating profit for the year is stated after charging:		
Exchange losses	6,337	4,865
Depreciation of tangible fixed assets	3,478,584	3,307,773
Operating lease rentals	795,101	788,724
Fees payable for the audit of the financial statements	69,300	63,000

No non-audit services were provided by the company's auditors.

7 Staff costs

Staff costs, including directors' remuneration, were as follows:

	2022	2021
	£	£
Wages and salaries	25,325,459	21,102,618
Social security costs	3,418,959	2,400,654
Pension costs	1,519,311	1,168,367
	30,263,729	24,671,639

The average number of persons employed by the Company during the year was as follows:

	2022	2021
	Number	Number
Development	322	283
Operational	36	33
	358	316

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2022

8 Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was £nil (2021: £nil)

The highest paid director received remuneration of £nil (2021: £nil).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2021: £nil).

Directors' remuneration is borne by another group company.

9 Interest receivable and similar income

	2022	2021
	£	£
Intercompany interest receivable	37,707	8,348
Other interest receivable	-	5
	<u>37,707</u>	<u>8,353</u>
Total interest revenue	37,707	8,353
Dividend income from shares in group undertakings	-	3,000,000
	<u>37,707</u>	<u>3,008,353</u>

10 Taxation

	2022	2021
	£	£
Current tax		
UK corporation tax on profits for the current period	354,792	(751)
	<u>354,792</u>	<u>(751)</u>
Deferred tax		
Origination and reversal of timing differences	312,917	(456,866)
Changes in tax rates	98,816	(277,151)
Adjustment in respect of prior periods	(185,995)	(3,779)
	<u>225,738</u>	<u>(737,796)</u>
Total deferred tax	225,738	(737,796)
	<u>225,738</u>	<u>(737,796)</u>
Total tax charge/(credit)	580,530	(738,547)
	<u>580,530</u>	<u>(738,547)</u>

Playground Games Limited**Notes to the financial statements (continued)****For the year ended 31 December 2022****10 Taxation (continued)**

The actual charge/(credit) for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2022	2021
	£	as restated £
Profit before taxation	766,123	3,527,559
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	145,563	670,236
Tax effect of expenses that are not deductible in determining taxable profit	7,415	(867)
Tax effect of income not taxable in determining taxable profit	(103,460)	(570,000)
Adjustments in respect of prior years	(185,994)	(4,531)
Depreciation on assets not qualifying for tax allowances	30,659	31,335
Tax rate changes	98,816	(277,189)
Effect of restatement	587,531	(587,531)
Taxation charge/(credit) for the year	580,530	(738,547)

The Finance Bill 2021, which was substantively enacted in May 2021, included provisions to increase the rate of UK corporation tax for larger companies to 25%, with effect from 1 April 2023. Deferred taxation has been measured at the substantively enacted tax rates that are expected to apply in the periods in which the respective assets or liabilities are expected to reverse. Accordingly, a rate of 25% has been applied when calculating deferred tax as at the reporting date.

11 Dividends

	2022	2021
	£	£
Interim paid	-	20,000,000

The directors do not recommend payment of a final dividend.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2022

12 Tangible fixed assets

	Leasehold improvements	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2022	4,625,697	663,206	11,870,794	17,159,697
Additions	722,836	33,115	1,817,360	2,573,311
Disposals	-	-	(234,199)	(234,199)
At 31 December 2022	5,348,533	696,321	13,453,955	19,498,809
Depreciation and Impairment				
At 1 January 2022	2,843,494	447,022	7,911,080	11,201,596
Depreciation charged in the year	918,970	106,784	2,452,830	3,478,584
Eliminated in respect of disposals	-	-	(234,199)	(234,199)
At 31 December 2022	3,762,464	553,806	10,129,711	14,445,981
Carrying amount				
At 31 December 2022	1,586,069	142,516	3,324,243	5,052,828
At 31 December 2021	1,782,203	216,184	3,959,714	5,958,101

13 Fixed asset investments

	Investment in Subsidiary £
Cost or valuation	
At 1 January 2021	1
At 31 December 2022	1
At 31 December 2021	1

Playground Games Limited**Notes to the financial statements (continued)**
For the year ended 31 December 2022**14 Investment in group undertakings**

Details of the company's subsidiaries at 31 December 2022 are as follows:

Name	Class of shares held	% Held Direct	Address
PG Game Development Limited	Ordinary	100	The Broadgate Tower, Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS

The nature of business for PG Game Development Limited is development of video games.

15 Debtors

	2022	2021 as restated
	£	£
Amounts falling due within one year:		
Corporation tax recoverable	-	164,824
Amounts owed by group undertakings	10,821,030	9,308,826
Other debtors	354,564	356,266
Prepayments and accrued income	1,016,035	596,244
	<u>12,191,629</u>	<u>10,426,160</u>
	2022	2021
	£	£
Amounts falling due after more than one year:		
Deferred tax asset (note 17)	<u>929,056</u>	<u>1,154,794</u>
Total debtors	<u>13,120,685</u>	<u>11,580,954</u>

Amounts owed by group undertakings include a loan to Microsoft Corporation of £3,737,100, the ultimate parent company. This loan is repayable on demand and carries a variable interest rate. All amounts are due within one year and are unsecured.

Amounts owed by group undertakings include recharges to PG Game Development Limited of £7,083,930. All amounts are interest free, due within one year and are secured.

Playground Games Limited**Notes to the financial statements (continued)**
For the year ended 31 December 2022**16 Creditors: amounts falling due within one year**

	2022	2021
	£	£
Bank loans and overdrafts	-	614
Trade creditors	277,300	187,803
Amounts owed to group undertakings	-	460,572
Corporation tax	139,968	-
Other taxation and social security	1,024,677	486,858
Other creditors	242,329	249,480
Accruals	2,232,762	2,083,347
	<u>3,917,036</u>	<u>3,468,674</u>

The intercompany loan is held with PG Game Development Limited, a wholly owned subsidiary. This loan is non-interest bearing and is repayable on demand. All amounts are due within one year and are unsecured.

17 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets	Assets
	2022	2021
	£	£
Balances:		
Accelerated capital allowances	431,780	861,351
Tax losses	454,874	247,462
Short term timing differences - trading	42,402	45,981
	<u>929,056</u>	<u>1,154,794</u>
		2022
Movements in the year:		£
Asset at 1 January 2022		(1,154,794)
Charge to profit or loss		225,738
Asset at 31 December 2022		<u>(929,056)</u>

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2022

17 Deferred taxation (continued)

A deferred tax asset of £929k has been recognised at 31 December 2022 (2021: £1.15m). This asset, which relates to other timing differences and tax losses has been recognised in the financial statements on the basis that the Directors are of the opinion, based on recent and forecast trading, that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of these timing differences can be deducted within 12 months of the year end.

18 Share capital

	2022	2021
	£	£
Ordinary share capital		
Authorised, issued and fully paid		
14,280 ordinary shares of £1 each (2021: 14,280)	<u>14,280</u>	<u>14,280</u>

19 Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2022	2021
	£	£
Not later than 1 year	866,053	760,147
Later than 1 year and not later than 5 years	2,978,938	2,954,778
Later than 5 years	-	476,002
	<u>3,844,991</u>	<u>4,190,927</u>

20 Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £1,519,311 (2021: £1,168,367).

Playground Games Limited**Notes to the financial statements (continued)**
For the year ended 31 December 2022**21 Prior period adjustment**

Subsequent to the issuance of the Company's financial statements for the year ended 31 December 2021, the Company discovered the following accounting error which has been corrected by restating the affected financial statement line items and respective notes for the year.

Commission revenue

In December 2021 the accrual for commission turnover with Microsoft Corporation was incorrectly calculated. As a result, the prior year revenue and amounts owed by Group undertakings were understated by £3,092,270. This has been corrected by restating the comparative amounts in these financial statements.

Tax has not been restated for the impact of the prior period error as this was considered immaterial to the financial statement.

Statement of comprehensive income extract

	Per 2021 signed accounts £	PY Error £	2021 accounts (Restated) £
Turnover	30,103,590	3,092,270	33,195,860
Gross profit	7,482,934	3,092,270	10,575,204
Operating profit	(2,573,064)	3,092,270	519,206
Profit before taxation	435,289	3,092,270	3,527,559
Taxation	738,547	-	738,547
Profit after taxation	1,173,836	3,092,270	4,266,106

Balance sheet extract

	Per 2021 signed accounts £	PY Error £	2021 accounts (Restated) £
Debtors	8,488,683	3,092,270	11,580,953
Net current assets	5,027,207	3,092,270	8,119,477
Total assets less current liabilities	10,985,309	3,092,270	14,077,579
Net assets	10,985,309	3,092,270	14,077,579
Profit and loss account	10,971,029	3,092,270	14,063,299
Total equity	10,985,309	3,092,270	14,077,579

Playground Games Limited**Notes to the financial statements (continued)
For the year ended 31 December 2022****21 Prior period adjustment (continued)****Notes to the financial statements (extract)**

	Per 2021 signed accounts £	PY Error £	2021 accounts (Restated) £
Note 4			
Turnover analysed by class of business			
Recharges to subsidiary	25,145,930		25,145,930
Commission received	4,957,660	3,092,270	8,049,930
	<u>30,103,590</u>	<u>3,092,270</u>	<u>33,195,860</u>
Turnover analysed by geographical market			
United Kingdom	25,145,930		25,145,930
United States of America	4,957,660	3,092,270	8,049,930
	<u>30,103,590</u>	<u>3,092,270</u>	<u>33,195,860</u>
Note 15			
Debtors			
Amounts falling due within one year	7,333,889	3,092,270	10,426,159
Amounts owed by group undertakings	6,216,556	3,092,270	9,308,826

22 Ultimate controlling party

Microsoft Corporation, a company incorporated in the state of Washington in the United States of America is the ultimate controlling party and 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 their registered address Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

The immediate parent undertaking is Playground Games Holdings Limited.