

Registration number: 09616816

MSFT MCIO Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2019

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MSFT MCIO Limited

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MSFT MCIO Limited

Company Information

Directors	Keith R Dolliver Benjamin O Orndorff Cindy H Rose
Company secretary	Reed Smith Corporate Services Limited
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS
Solicitors	Reed Smith LLP Beaufort House 15 St Botolph Street London EC3A 7EE
Bankers	Citibank, N.A. PO Box 449 Riverdale House Molesworth Street SE13 7EU
Auditors	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

MSFT MCIO Limited

Strategic Report for the Year Ended 30 June 2019

The directors present their strategic report for the year ended 30 June 2019.

Principal activity

MSFT MCIO Limited, a subsidiary of Microsoft Corporation, is engaged in data centre support for other group companies. The principal area of business activity is the United Kingdom.

Fair review of the business

The results for the year are shown on page 11. The company recorded a profit before taxation of £21,777,000 (2018: profit before taxation of £11,430,000). The Directors feel that the Company is in a sound position for the coming period. The company maintained a strong balance sheet and had net assets at 30 June 2019 of £28,976,000 (2018: £12,408,000).

Key Performance indicators

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

Strategy, objective and business model

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2019, which is publicly available at www.microsoft.com. MSFT MCIO Limited's business model is expected to remain consistent as it continues to provide data centre support to Microsoft's UK customer base.

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.

Cash flow risk, credit risk, liquidity risk and market risk

Cash flow risk

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

Credit risk

The Company's principal financial assets are 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 other group companies continue to perform well.

Liquidity risk

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

MSFT MCIO Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

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.

Brexit

The results of operations may be affected by legislation and political developments. The company has assessed the risks associated with Brexit and considers the main potential risks as employment restrictions for non-UK EU employees, increased costs and compliance requirements for custom tariffs, and regulatory restrictions impacting contractual mechanisms. The company is continuing to evaluate and implement processes to minimise these risks.

COVID-19

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. This pandemic has occurred after the company's year-end and is considered a non-adjusting post balance sheet event. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local crisis management teams have been put in place by Microsoft to monitor the COVID-19 situation closely and to anticipate and react to the evolving circumstances. To protect the health and well-being of our employees, suppliers, and customers, Microsoft have made substantial modifications to employee travel policies, implemented retail store and office closures as employees are advised to work from home, and cancelled or shifted our conferences and other marketing events to virtual-only.

The extent to which the COVID-19 pandemic impacts Microsoft going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer, business, and government spending on technology as well as customers' ability to pay for our products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including investments, receivables, and forward-looking guidance.

Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue as a going concern. Management acknowledge that these uncertain times can have a huge impact on people and organisations and keeps monitoring these uncertainties closely. Measures to contain the virus that impact us, our partners, distributors, and suppliers may further intensify these impacts and other risks. Any of these may adversely impact Microsoft's ability to:

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacenter load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacenter operations.
- Effectively manage our international operations through changes in trade practices and policies.
- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

MSFT MCIO Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

We may incur increased costs to effectively manage these aspects of our business. If we are unsuccessful it may adversely impact our revenues, cash flows, market share growth, and reputation.

Other risks

Other risks include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2019 Form 10-K.

Climate change

The Directors have considered the importance of climate change and how the company can contribute towards Microsoft's goal of becoming carbon negative by 2030.

Approved by the Board on ~~2 June 2020~~ and signed on its behalf by:

.....
Benjamin O Omdorff
Director



MSFT MCIO Limited

Directors' Report for the Year Ended 30 June 2019

The directors present their report and the audited financial statements for the year ended 30 June 2019.

Dividends

The directors do not approve a dividend for the period (2018: £Nil).

Going concern

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue operating as a going concern in the foreseeable future. Management acknowledge that these unpredictable times can have a huge impact on people and organizations and keeps monitoring these uncertainties very closely.

The Company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and have given consideration to potential impacts of the COVID-19 pandemic. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

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

Directors' of the company

The directors, who held office during the financial year, were as follows:

Keith R Dolliver

Benjamin O Orndorff

Cindy H Rose

Risk and uncertainties

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

Future developments

The company 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.

Disclosure of information to the auditors

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

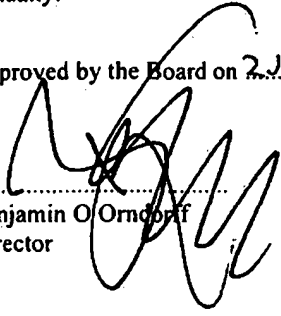
MSFT MCIO Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

Auditors

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

Approved by the Board on 2 June 2020 and signed on its behalf by:


Benjamin O Orndorff
Director

MSFT MCIO Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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.

MSFT MCIO Limited

Independent Auditor's Report to the Members of MSFT MCIO Limited

Opinion

In our opinion the financial statements of MSFT MCIO Limited (the 'company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 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; and
- the related notes 1 to 20.

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

Basis for opinion

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

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

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 the 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.

MSFT MCIO Limited

Independent Auditor's Report to the Members of MSFT MCIO Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 7], 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.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

MSFT MCIO Limited

Independent Auditor's Report to the Members of MSFT MCIO Limited (continued)

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.



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

Date: 2 June 2020

MSFT MCIO Limited

Profit and Loss Account for the Year Ended 30 June 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	294,623	154,611
Administrative expenses		<u>(259,321)</u>	<u>(138,487)</u>
Operating profit	5	<u>35,302</u>	<u>16,124</u>
Interest payable and similar expenses	6	<u>(13,525)</u>	<u>(4,694)</u>
		<u>(13,525)</u>	<u>(4,694)</u>
Profit before tax		21,777	11,430
Tax on profit	10	<u>(5,263)</u>	<u>(3,291)</u>
Profit for the year		<u>16,514</u>	<u>8,139</u>

The above results were derived from continuing operations.

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

MSFT MCIO Limited

**(Registration number: 09616816)
Balance Sheet as at 30 June 2019**

	Note	30 June 2019 £ 000	30 June 2018 £ 000
Fixed Assets			
Tangible assets	11	<u>898,953</u>	<u>390,843</u>
		<u>898,953</u>	<u>390,843</u>
Current assets			
Deferred tax assets	10	11,873	2,516
Debtors	12	<u>50,253</u>	<u>32,537</u>
		62,126	35,053
Creditors: Amounts falling due within one year	13	<u>(409,700)</u>	<u>(246,685)</u>
Net current liabilities		<u>(347,574)</u>	<u>(211,632)</u>
Total assets less current liabilities		551,379	179,211
Creditors: Amounts falling due after more than one year			
Finance lease liabilities	14	<u>(522,403)</u>	<u>(166,803)</u>
Net assets		<u>28,976</u>	<u>12,408</u>
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		<u>28,976</u>	<u>12,408</u>
Shareholders' funds		<u>28,976</u>	<u>12,408</u>

Approved by the Board on ~~2 June 2020~~ and signed on its behalf by:

.....
Benjamin O Olorunmi
Director

MSFT MCIO Limited

Statement of Changes in Equity for the Year Ended 30 June 2019

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 July 2018	-	12,408	12,408
Profit for the year	-	16,514	16,514
Total comprehensive income	-	16,514	16,514
Share based payment - contribution received (note 18)	-	47	47
Income tax effect of share based payments transactions	-	7	7
At 30 June 2019	-	28,976	28,976

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 July 2017	-	4,256	4,256
Profit for the year	-	8,139	8,139
Total comprehensive income	-	8,139	8,139
Share based payment - contribution received	-	13	13
At 30 June 2018	-	12,408	12,408

The notes on pages 14 to 30 form an integral part of these financial statements.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019

1 General information

MSFT MCIO Limited ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The group accounts of Microsoft Corporation can be obtained as set out in Note 20.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Summary of disclosure exemptions

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, and tangible fixed assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions within the group;
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 20.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Changes in accounting policy

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

None of the standards, interpretations and amendments effective for the first time from 1 July 2018 have had a material effect on the financial statements, including IFRS 15 - Revenue, that has been adopted for the first time.

The company applied IFRS 9 for the first time in the current year. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The company has applied IFRS 9 retrospectively, with the initial application date of 1 July 2018.

There was no impact on the income statement or the balance sheet from the adoption of IFRS 9 and it was adopted without restating comparative information. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 and to the comparative period.

The Company performed a detailed analysis of its business model for managing financial assets as well as analysing their contractual cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 at 1 July 2018:

<i>Financial Assets</i>	IAS 39 Classification	IFRS 9 Classification	IAS 39 Carrying Amount £ 000	IFRS 9 Carrying Amount £ 000
Intercompany receivables	Amortised cost	Amortised cost	20,444	20,444

Financial Liabilities

There were no changes to the classification and measurement of financial liabilities.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements are prepared on a going concern basis.

The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The Company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing.

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

Turnover

Turnover includes commission income receivable and amounts derived from the fellow subsidiary in Ireland based on 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.

Interest income

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

Foreign currencies

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

Tax

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

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

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

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

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

Tangible assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value. The Company performs an impairment analysis on an annual basis.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight-line basis over their expected useful lives at the following rates:

Office equipment, furniture and fittings 3 years

Computer and technical equipment 1 - 3 years

Leases and leasehold improvements over the period of the lease

Residual value is calculated on prices prevailing at the date of acquisition.

Provisions

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Lease incentives are considered as part of the overall cost of the lease and amortised straight line over the period of the lease.

Share capital

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

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Dividends

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

Defined contribution pension obligation

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.

Share based payments

The company has adopted IFRS2 in respect of share awards granted by the parent company, Microsoft Corporation, to the employees of the company. The estimated fair value of equity-based instruments are recognised as an expense over the vesting period with a corresponding credit to retained earnings. 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 and adjusted for the effect of non-market based vesting conditions. The fair value of share awards is determined on the date of grant, based on the parent company's stock price and less the dividends that will not be received during the vesting period.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets

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

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

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

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

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

Financial liabilities

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

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

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

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Classification and measurement

Financial assets

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

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

Financial liabilities

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

Loans and borrowings

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

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

Payables are measured at amortised cost.

Financial assets at amortised cost

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

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

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

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

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

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

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

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Derecognition

Financial assets

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

Financial liabilities

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

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

Offsetting of financial instruments

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

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

The directors believe that the critical accounting judgements made in the application of the accounting policies relate to the estimate of useful lives on Tangible Fixed Assets, due to the material size of the balance.

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

4 Turnover

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

	2019 £ 000	2018 £ 000
Commission from group undertakings	<u>294,623</u>	<u>154,611</u>

Turnover represents amounts received and receivable in respect of services provided during the year. Turnover is attributable to the provision of data centre support services to group companies. It represents commission receivable by the company under agreements with a fellow subsidiary in Ireland.

5 Profit for the year

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	166,914	74,635
Foreign exchange losses/(gains)	1,860	(691)
Operating lease expense - property	12,984	6,822
Auditors remuneration for audit services (note 9)	<u>23</u>	<u>22</u>

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

6 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest on obligations under finance leases	11,900	4,238
Interest payable to group undertakings	1,625	456
	<u>13,525</u>	<u>4,694</u>

7 Staff costs

The aggregate payroll costs were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	2,278	1,249
Social security costs	259	148
Pension costs, defined contribution scheme	219	83
Share-based payment expenses	47	12
	<u>2,803</u>	<u>1,492</u>

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

	2019 No.	2018 No.
Data centre administration	<u>51</u>	<u>23</u>

8 Directors' remuneration

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

No contributions were made to a defined contribution pension scheme on behalf of the directors (2018: £Nil).

9 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	<u>23</u>	<u>22</u>

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

10 Taxation

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

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	15,451	6,444
UK corporation tax adjustment to prior periods	(837)	(568)
	<u>14,614</u>	<u>5,876</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(9,385)	(2,631)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	34	46
Total deferred taxation	<u>(9,351)</u>	<u>(2,585)</u>
Tax expense in the profit and loss account	<u>5,263</u>	<u>3,291</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2018 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2019 £ 000	2018 £ 000
Profit before tax	<u>21,777</u>	<u>11,430</u>
Corporation tax at standard rate	4,138	2,172
Decrease in current tax from adjustment for prior periods	(837)	(568)
Increase from effect of expenses not deductible in determining taxable profit	826	1,347
Increase from effect of employee share-based payment	2	-
Deferred tax expense from unrecognised temporary difference from a prior period	34	46
Deferred tax expense relating to changes in tax rates or laws	<u>1,100</u>	<u>294</u>
Total tax charge	<u>5,263</u>	<u>3,291</u>

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

10 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 July 2018 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 30 June 2019 £ 000
Timing differences in respect of capital allowances	2,513	9,350	-	11,863
Share-based payment	3	2	5	10
Net tax assets/(liabilities)	<u>2,516</u>	<u>9,352</u>	<u>5</u>	<u>11,873</u>

The deferred tax asset includes amounts recoverable after more than one year.

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%.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

11 Tangible assets

	Furniture, fittings and office equipment £ 000	Leases and leasehold improvements £ 000	Computer and technical equipment £ 000	Total £ 000
Cost or valuation				
At 1 July 2018	6,163	192,725	298,076	496,964
Additions	9,406	405,550	260,411	675,367
Disposals	-	-	(2,408)	(2,408)
At 30 June 2019	15,569	598,275	556,079	1,169,923
Depreciation				
At 1 July 2018	1,759	13,148	91,214	106,121
Charge for the year	3,819	23,587	139,508	166,914
Eliminated on disposal	-	-	(2,065)	(2,065)
At 30 June 2019	5,578	36,735	228,657	270,970
Carrying amount				
At 30 June 2019	9,991	561,540	327,422	898,953
At 30 June 2018	4,404	179,577	206,862	390,843

Assets held under finance leases

The net carrying amount of leases and leasehold improvements includes the following amounts in respect of assets held under finance leases:

30 June 2019 £ 000	30 June 2018 £ 000
534,344	169,193

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

12 Debtors

	30 June 2019 £ 000	30 June 2018 £ 000
Amounts owed by group undertakings	35,445	20,444
Prepayments	3,951	2,324
Other debtors	10,857	9,769
	<u>50,253</u>	<u>32,537</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.

13 Creditors: amounts falling within one year

	30 June 2019 £ 000	30 June 2018 £ 000
Trade creditors	30,262	25,852
Other creditors	7	1
Accrued expenses	33,140	21,288
Amounts due to group undertakings	308,150	185,824
Social security and other taxes	94	77
Deferred income	-	738
Outstanding defined contribution pension costs	20	9
Finance lease liabilities (note 14)	23,722	6,975
Corporation tax liability	14,305	5,921
	<u>409,700</u>	<u>246,685</u>

Interest is paid on amounts owed to group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. These amounts are unsecured.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

14 Obligations under leases

Finance leases

	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2019			
Within one year	44,323	(20,601)	23,722
In two to five years	186,542	(72,361)	114,181
In over five years	487,993	(79,771)	408,222
	<u>718,858</u>	<u>(172,733)</u>	<u>546,125</u>
	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2018			
Within one year	14,948	(7,973)	6,975
In two to five years	63,042	(28,452)	34,590
In over five years	165,425	(33,212)	132,213
	<u>243,415</u>	<u>(69,637)</u>	<u>173,778</u>

The present values of future finance lease payments are analysed as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Current liabilities	23,722	6,975
Non-current liabilities	<u>522,403</u>	<u>166,803</u>
	<u>546,125</u>	<u>173,778</u>

The company leases some of its data centres under finance leases. The average lease term is 15 years. The fair value of the company's lease obligations is approximately equal to their carrying amount.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

14 Obligations under leases (continued)

Operating leases

The total future minimum lease payments are as follows:

	30 June 2019 £ 000	30 June 2018 £ 000
Within one year	18,519	8,081
In two to five years	74,334	32,337
In over five years	75,303	32,876
	<u>168,156</u>	<u>73,294</u>

Operating lease payments represent rentals payable for certain of the company's data centres. The average lease term is 15 years.

15 Commitments

Capital commitments

The Company has capital commitments in respect of finance leases committed to not yet capitalised of £ 275m (2018: nil)

	30 June 2019 £ 000	30 June 2018 £ 000
Within one year	14,410	-
In two to five years	66,937	-
In over five years	193,948	-
	<u>275,295</u>	<u>-</u>

16 Share capital

Allotted, called up and fully paid shares

	No.	30 June 2019 £	No.	30 June 2018 £
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

Authorised shares

The authorised share capital of the company was 1 share of £1 (2018: 1 share of £1)

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.

MSFT MCIO Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

17 Pension and other schemes

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge for the year represents contributions payable by the company to the scheme and amounted to £219,000 (2018 - £83,000).

18 Share-based payments

Stock awards ("SAs") are grants that entitle the holder to shares of Microsoft common stock as the award vests. SAs generally vest over a period of four or five years.

Microsoft also have an employee stock purchase plan ("the Plan") for all eligible employees. Shares of Microsoft common stock may be purchased by employees at a discounted price compared to the market value.

IFRS2 requires that equity-settled share based payments issued to the company's employees are measured at fair value and that this value is expensed over the vesting period. The expense recognised in the period arising from transactions accounted for on equity-settled share based payment transactions is £47k (2018 - £13k). Stock awards granted during the financial year were 927 shares (2018 - 305 shares). Awards outstanding at the end of the financial year including transfers in were 1,722 shares (2018 - 704 shares).

19 Related party transactions

As at 30 June 2019 and 30 June 2018, the company was a wholly owned subsidiary of Microsoft Corporation. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 12 and 13.

20 Parent and ultimate parent undertaking

The immediate parent company is Microsoft Ireland Operations Limited, registered address; 70 Sir John Rogerson's Quay, Dublin 2, Ireland. The ultimate parent undertaking of the company, which is also the controlling undertaking and the largest and smallest company preparing group accounts in which the results of the company are consolidated, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the Investor Relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.