Registration number: 09616816

MSFT MCIO Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2020

MSFT MCIO Limited

Contents

MSFT MCIO Limited

Company Information

Directors	Keith R Dolliver
	Benjamin O Orndorff
	Cindy H Rose
	Clare Barclay
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 2020

The directors present their report for the year ended 30 June 2020.

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 13. The company recorded a profit before taxation of £20,050,000 (2019: profit before taxation of £21,777,000). 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 2020 of £43,794,000 (2019: £28,976,000).

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 2020, 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.

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.

Microsoft continues 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. 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.

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 2020 Form 10-K.

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 regard 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 voices 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.

Customers

Customer feedback and insights are critical in shaping how the business enhances existing products and services and develop new ones. Insights from customers are gained through online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers and our customer service representatives.

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 focussed 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 online anonymous poll around the Microsoft work experience including workgroups, organisation, and the company as a whole. 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 expectation of high standards of business conduct to the suppliers who do business with Microsoft through requiring them to uphold human rights, labour, health and safety, environment, and business ethics practices in our Supplier Code of Conduct. Supplier engagement is sought through workshops and trainings, supplier advisory boards, a supplier summit and participation in industry coalitions. An anonymous voice of the supplier survey is also conducted.

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 2030, shifting to 100% renewable energy by 2025 and investing in new technologies and innovative sustainability solutions.

MSFT MCIO Limited

Strategic Report for the Year Ended 30 June 2020 (continued)

Approved by the Board on 28 April 2021 and signed on its behalf by:

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Benjamin O Orndorff
Director

MSFT MCIO Limited

Directors' Report for the Year Ended 30 June 2020

The directors present their report and the audited financial statements for the year ended 30 June 2020.

Dividends
The directors do not approve a dividend for the period (2019: £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 events occurred after the balance sheet date that would impact significantly on the financial statements.

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

Keith R Dolliver

Benjamin O Orndorff

Cindy H Rose

Clare Barclay

Effective from 1st October 2020 Cindy H Rose was replaced as a director by Clare Barclay.

Risk and uncertainties

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

Future developments
The company 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.

MSFT MCIO Limited

Directors' Report for the Year Ended 30 June 2020 (continued)

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. As such, Microsoft calculates Scope 2 emissions using both a location- and market-based methodology but tracks its GHG reduction goals according to the market-based method to capture the impact of Microsoft's 100% renewable electricity commitment. In following GHGP requirements for calculating market-based Scope 2 emissions, Microsoft preferences renewable electricity in the hierarchy for selecting market-based emission factors because Microsoft procures 100% renewable electricity for global (and specifically UK) electricity consumption. Renewable electricity carries a zero emission factor, therefore Microsoft's market-based Scope 2 emissions for electricity consumption are zero.

Microsoft calculates emissions primarily using metered activity data, but estimates based on appropriate proxies (such as office floor area and data center IT capacity) where metered activity data is not available. For the UK GHG inventory, Microsoft uses emission factors from the US EPA's Emission Factor Hub to calculate Scope 1 emissions, and the electricity emission 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 30 June 2020:

Name and description	Unit of measurement	2020
Scope 1 (direct) GHG emissions	Metric Tons CO2e	1,227
Scope 2 (indirect location-based) GHG emissions	Metric Tons CO2e	45,367
Scope 2 (indirect market-based) GHG emissions	Metric Tons CO2e	-
Energy consumption	MWh	197,050
Emissions Intensity Ratio	Metric Tons CO2e/ GBP revenue in millions	3

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.

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.

MSFT MCIO Limited

Directors' Report for the Year Ended 30 June 2020 (continued)

Approved by the Board on 20 April 2021 and signed on its behalf by:

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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 2020 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 respective of these matters.

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 9], 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.

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.

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

Date: 28 April 2021

MSFT MCIO Limited

Profit and Loss Account for the Year Ended 30 June 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	432,041	294,623
Administrative expenses		(383,238)	(259,321)
Operating profit	5	48,803	35,302
Interest payable and similar expenses	6	(28,753)	(13,525)
		(28,753)	(13,525)
Profit before tax		20,050	21,777
Tax on profit	10	(5,332)	(5,263)
Profit for the year		14,718	16,514

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 2020

	Note	30 June 2020 £ 000	30 June 2019 £ 000
Fixed Assets			
Tangible assets		1,252,002	898,953
		1,252,002	898,953
Current assets			
Debtors	12	51,175	50,253
Deferred tax assets	10	28,869	11,873
		80,044	62,126
Creditors: Amounts falling due within one year	13	(444,532)	(409,700)
Net current liabilities		(364,488)	(347,574)
Total assets less current liabilities		887,514	551,379
Creditors: Amounts falling due after more than one year	14	(843,720)	(522,403)
Net assets		43,794	28,976
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		43,794	28,976
Shareholders' funds		43,794	28,976

Approved by the Board on 28 April 2021 and signed on its behalf by:

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Benjamin O Orndorff
Director

The notes on pages 16 to 32 form an integral part of these financial statements.

MSFT MCIO Limited

Statement of Changes in Equity for the Year Ended 30 June 2020

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2019	-	28,976	28,976
Profit for the year	-	14,718	14,718
Total comprehensive income	-	14,718	14,718
Share based payment - contribution received (note 18)	-	86	86
Income tax effect of share based payments transactions	-	14	14
At 30 June 2020	-	43,794	43,794

	Share capital £ 000	Profit and loss account £ 000	Total £ 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 (note18)	-	47	47
Income tax effect of share based payments transactions	-	7	7
At 30 June 2019	-	28,976	28,976

The notes on pages 16 to 32 form an integral part of these financial statements.

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. 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.

- 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.

2 Accounting policies (continued)

Changes in accounting policy
IFRS 16, Leases

In January 2016, the IASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard is effective for annual periods beginning on or after January 1, 2019. Accordingly, we adopted the standard on July 1, 2019.

The standard had a material impact in our balance sheets, but did not have a material impact in our income statements. The standard was adopted using the modified retrospective approach, which does not require the restatement of previously reported results. As part of the initial application of IFRS 16, we elected to apply the relief option not to reassess whether a contract is, or contains a lease at the date of initial application. We also elected to apply a single discount rate to our equipment portfolio, which have reasonably similar characteristics. In addition, we elected to rely on our assessment of whether leases are onerous before the date of initial application as an alternative to performing an impairment review. Lastly, we elected to exclude initial direct costs from the measurement of the ROU asset at the date of initial application.

The following reconciliation to the opening balance for lease liabilities as of July 1, 2019 is based upon the operating lease obligations as of June 30, 2019.

Reconcilation	£ 000
Operating lease obligations at June 30, 2019	168,156
Effects from discounting at the incremental borrowing rate as of July 1, 2019	(10,059)
Lease liabilities at July 1, 2019	158,097
Liabilities from finance leases as of June 30, 2019	(546,125)
Liabilities from leases as of July 1, 2019	704,222

These lease liabilities were discounted at the borrowing rate as of July 1, 2019. The weighted average discount rate was 3.07%.

Measurement convention
The financial statements are prepared on the historical cost basis.

2 Accounting policies (continued)

Going concern
The financial statements are prepared on a going concern basis.

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 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 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 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.

2 Accounting policies (continued)

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

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

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

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

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.

2 Accounting policies (continued)

Leases

We determine if an arrangement is a lease at inception. Leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease ROU asset also includes any lease payments made, estimate of costs to dismantle or restore the underlying asset to the original condition, and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the lease ROU assets and liabilities.

Share capital

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

Dividends

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

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.

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.

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.

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.

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, and the incremental borrowing rate applied to the accounting for leases under IFRS 16. Given the material size of the lease liability and right of use assets, a change in the rate applied could have a material impact on the balance sheet.

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:

	2020 £ 000	2019 £ 000
Commission from group undertakings	432,041	294,623

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 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.

5 Profit for the year

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expense	278,615	166,914
Foreign exchange losses	494	1,860
Lease expense - property	885	12,984
Loss on disposal of property, plant and equipment	660	-
Auditors remuneration for audit services (note 9)	24	23

6 Interest payable and similar expenses

	2020 £ 000	2019 £ 000
Interest on obligations under leases	27,221	11,900
Interest payable to group undertakings	1,532	1,625
	28,753	13,525

7 Staff costs

The aggregate payroll costs were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	3,229	2,278
Social security costs	390	259
Pension costs, defined contribution scheme	252	219
Share-based payment expenses	86	47
	3,957	2,803

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

	2020 No.	2019 No.
Data centre administration	53	51

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 (2019: £Nil).

9 Auditors' remuneration

	2020 £ 000	2019 £ 000
Audit of the financial statements	24	23

10 Taxation

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

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	22,381	15,451
UK corporation tax adjustment to prior periods	(57)	(837)
	22,324	14,614
Deferred taxation		
Arising from origination and reversal of temporary differences	(16,508)	(9,385)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	817	34
Effect of tax rate change on opening balance	(1,301)	-
Total deferred taxation	(16,992)	(9,351)
Tax expense in the profit and loss account	5,332	5,263

10 Taxation (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2019 - 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:

	2020 £ 000	2019 £ 000
Profit before tax	20,050	21,777
Corporation tax at standard rate	3,810	4,138
Decrease in current tax from adjustment for prior periods	(57)	(837)
Increase from effect of expenses not deductible in determining taxable profit	22	826
(Decrease)/increase from effect of employee share-based payment	(12)	2
Deferred tax expense from unrecognised temporary difference from a prior period	817	34
Deferred tax (credit)/expense relating to changes in tax rates or laws	(1,301)	1,100
Increase from effect of capital allowances depreciation	2,053	-
Total tax charge	5,332	5,263

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	On July1, 2019 £ 000	Recognised in income £ 000	Recognised in equity £ 000	On June 30, 2020 £ 000
Timing differences in respect of capital allowances	11,863	16,987	-	28,850
Share-based payment	10	6	3	19
Net tax assets/(liabilities)	11,873	16,993	3	28,869

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

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax change accordingly. The deferred tax at 30 June 2020 has been calculated at 19% (2019: 17%).

11 Property, plant and equipment

	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
At 1 July 2019	15,569	598,275	556,079	1,169,923
Additions	5,309	408,689	218,326	632,324
Disposals	-	-	(1,277)	(1,277)
Transfers	(946)	946	-	-
At 30 June 2020	19,932	1,007,910	773,128	1,800,970
Depreciation				
At 1 July 2018	1,759	13,148	91,214	106,121
Charge for 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
At 1 July 2019	5,578	36,735	228,657	270,970
Charge for the year	5,516	76,369	196,730	278,615
Eliminated on disposal	-	-	(617)	(617)
Transfers	(147)	147	-	-
At 30 June 2020	10,947	113,251	424,770	548,968
Carrying amount				
At 30 June 2020	8,985	894,659	348,358	1,252,002
At 30 June 2019	9,991	561,540	327,422	898,953
At 1 July 2018	4,404	179,577	206,862	390,843

There were additions to property, plant and equipment during the year in the amount of £401 million (2019: £384) of items held under leasing commitments, which are guaranteed by the assets subject to the contract.

Additions to property, plant and equipment under leasing commitments include the initial balance of lease liabilities, recorded in accordance with IFRS 16, adopted as of July 1, 2019, in the amount of £157 million.

For more information on fixed assets held under leasing commitments, see Note 15.

12 Debtors

	30 June 2020 £ 000	30 June 2019 £ 000
Amounts owed by group undertakings	38,164	35,445
Prepayments	3,328	3,951
Other debtors	9,683	10,857
	51,175	50,253

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 2020 £ 000	30 June 2019 £ 000
Trade creditors	61,005	30,262
Other creditors	2	7
Accrued expenses	33,863	33,140
Amounts due to group undertakings	271,806	308,150
Social security and other taxes	204	94
Outstanding defined contribution pension costs	-	20
Lease liabilities (note 15)	55,280	23,722
Corporation tax liability	22,372	14,305
	444,532	409,700

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.

14 Creditors:amounts falling due after more than one year

	30 June 2020 £ 000	30 June 2019 £ 000
Lease obligations	843,720	522,403
	843,720	522,403

15 Lease arrangements

The Company has leases for datacenters, corporate offices, and certain equipment. The leases have remaining lease terms of 6 years to 16 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

	Leases £ 000
Balance at 1 July 2019	689,471
Additions	244,430
Depreciation expense for the year	(68,191)
	865,710

There were additions to property, plant and equipment during the year in the amount of £401 million (2019: £384) of items held under leasing commitments, which are guaranteed by the assets subject to the contract. Additions to property, plant and equipment under leasing commitments include the initial balance of lease liabilities, recorded in accordance with IFRS 16, adopted as of July 1, 2019, in the amount of £157 million.

Amounts recognized in profit and loss were as follows:

	30 June 2020 £ 000
Depreciation expense on right-of-use assets	68,191
Interest expense on lease liabilities	27,221
Expense relating to variable lease payments not included in measurement of lease liability	-
Income from subleasing right-of-use assets	-
	95,412

Obligations under lease commitments

Effective interest rate	Maturity	30 June 2020 £ 000
1.74% to 7.00% a.a.	2026 to 2034	899,000

	30 June 2020 £ 000	30 June 2019 £ 000
Current	55,280	23,722
Non-current	843,720	522,403
	899,000	546,125

15 Lease arrangements (continued)

Changes in liabilities arising from financing activities	On July 1, 2019 £ 000	Cash flows £ 000	Exchange Varition £ 000	New leases £ 000	Others £ 000	On June 30, 2020 £ 000
Leasing activities	704,222	75,435	-	244,430	25,783	899,000

The opening balance on July 1, 2019 includes the opening balance of lease liabilities recorded in IFRS 16, implemented July 1, 2019, of £156.6 million.

Maturities of lease liabilities were as follows:

	30 June 2020 £ 000
Undiscounted lease payments to be paid	
Not later than 1 year	81,365
Later than 1 year and not later than 5 year	338,499
Later than 5 years	687,802
	1,107,666

As of June 30, 2020, The Company have additional leases that have not yet commenced of £460 million.

16 Share capital

Allotted, called up and fully paid shares

	30 June 2020 No.	30 June 2020 £	30 June 2019 No.	30 June 2019 £
Ordinary shares of £1 each	1	1	1	1

Authorised shares
The authorised share capital of the company was 1 share of £1 (2019: 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.

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 £252,000 (2019 - £219,000).

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 £86,432 (2019 - £47,956). Stock awards granted during the financial year were 1,385 shares (2019 - 927 shares). Awards outstanding at the end of the financial year including transfers in were 2,431 shares (2019 - 1,722 shares).

19 Related party transactions

As at 30 June 2020 and 30 June 2019, 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.