

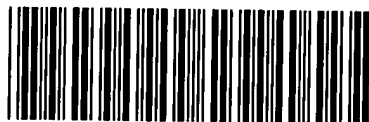
Registration number: 01624297

Microsoft Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2018

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Microsoft Limited

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Microsoft Limited

Company Information

Directors	K R Dolliver B O Omdorff C H Rose
Company secretary	Reed Smith LLP, 20 Primrose Street, London, EC2A 2RS
Registered office	Microsoft Campus Thames Valley Park Reading Berkshire RG6 1WG
Bankers	Citibank, N.A. PO Box 449 Riverdale House Molesworth Street SE13 7EU
Solicitors	Reed Smith LLP 20 Primrose Street London EC2A 2RS Olswang Solicitors 90 High Holborn London WC1V 6XX Osborne Clark Apex Plaza Forbury Road Reading Berkshire RG1 1AX
Auditors	Deloitte LLP Statutory Auditor Cambridge United Kingdom

Microsoft Limited

Strategic Report for the Year Ended 30 June 2018

The directors present their annual report and the audited financial statements for the year ended 30 June 2018. The directors are listed on page 1.

From February 2017, the principal activity of Microsoft Limited extended to include the direct distribution of computer software, peripherals, and hardware to customers. The company also continues to provide marketing and support for systems, devices and applications software for business, professional and home use, including operating systems, network products, languages and applications. The principal area of business activity is the United Kingdom.

Fair review of the business

The primary purpose of the company is to distribute computer software, peripherals, and hardware to customers and to provide marketing and support services to other group companies. Turnover for the year amounted to £2,138m (2017 restated: £1,175m) with a profit after taxation of £109m (2017: £77m). In the current year turnover from other group companies decreased to £731m from £809m.

Turnover is also generated from the distribution of computer software, peripherals, and hardware to customers and from the Services business through its Managed Support and Consulting divisions. This represents sales to third parties and increased from £366m (restated 2017) to £1,407m, primarily as a result of the transition to the Limited Risk Distributor (LRD) model which commenced in February 2017.

The key performance indicator for the company is based on return on employee investment. The return on employee investment in the current year was 25% (2017: 18%). This is calculated as a percent of total profit for the year divided by employee costs (note 4). The company is committed to ensuring all employees are focused on the overall group strategy, and as such employee involvement is a key focus for the company: refer to "Employee involvement" paragraph in the Directors' Report.

The Distribution business encompasses the direct distribution of computer software and hardware for the Volume Licensing, Microsoft Business Solutions (MBS), Microsoft Supply Chain (MSC) and Online Retail lines of business to UK customers. Microsoft Limited conducts this business under a "Limited Risk Distributor" model, the terms of which are outlined in intercompany agreements.

The Managed Support business provides onsite technical experts to enhance the performance of customers' investment in Microsoft's technology. The Consulting division works with customers and partners to deliver best in class, leading edge solutions to support the adoption and acceleration of deployment of Microsoft products.

Microsoft continues to transform its business as the productivity and platform company for the mobile-first and cloud-first world. Microsoft Limited will continue to support Microsoft Corporation's efforts in the UK market in creating new opportunities for partners, increase customer satisfaction and improve our service excellence, business efficacy, and internal processes.

Microsoft Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Strategy, objectives and business model

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2018, which is publicly available. Microsoft Limited's business model is expected to remain consistent with its primary purpose to distribute computer software, peripherals, and hardware to customers and to provide marketing and support services to other group companies.

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.

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.

Competition

We face intense competition across all markets for our products and services, which may lead to lower revenues. Our competitors range in size and many of the areas in which we compete evolve rapidly. Microsoft's ability to remain competitive depends on success in making innovative products, devices, and services that appeal to businesses and consumers. Our increasing focus on cloud-based services presents execution and competitive risks. Microsoft's strategic vision is to compete and grow by building best-in-class platforms. At the same time our competitors are developing and deploying cloud based services and pricing and delivery models are evolving. Microsoft are devoting significant resources to develop and deploy our cloud-based strategies.

Data Security

Cyberattacks and security vulnerabilities could lead to reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position. Threats to IT security can take a variety of forms and are constantly evolving, increasing the difficulty of detecting and successfully defending against them. We must continuously engineer more secure products and services, enhance security and reliability features, improve the deployment of software updates to address security vulnerabilities. Disclosure and misuse of personal data could result in liability and harm our reputation. Additional security measures we may take, may cause higher operating expenses.

Microsoft Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

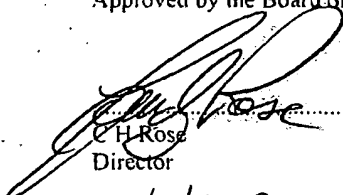
Employees

Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. Maintaining our brand and reputation are important to our ability to recruit and retain employees. Changes to immigration policies that restrain the flow of technical and professional talent may inhibit our ability to adequately staff our research and development efforts.

Taxes

We are subject to income taxes in the UK and accordingly as regulations and guidance evolve this may impact our tax estimates and expense.

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



C. H. Rose
Director
28/3/2019

Microsoft Limited

Directors' Report for the Year Ended 30 June 2018

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

Dividends

The directors approved a dividend payment of £121.0m be made in respect of the financial year ended 30 June 2018 (2017: £113.6m).

Going concern

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

The 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.

Future prospects

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

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.

Directors' of the company

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

K R Dolliver

B O Orndorff

C H Rose

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings.

Microsoft Limited

Directors' Report for the Year Ended 30 June 2018 (continued)

Employment of disabled persons

The company values diversity and sees equal opportunity as making the best use of the talents of all employees and potential employees. As such it is the company's policy to give full and fair consideration to applications for employment by disabled persons, bearing in mind the abilities of the applicant concerned. The company will not tolerate discrimination in the workplace and aims to ensure that each employee feels valued, and has the opportunity to contribute fully to the success of the company.

The company's general policy on training and promotion is to fit the qualifications and potential of each member of its staff to the appropriate job and career in the business. This policy is applied to disabled persons in the same way as to other staff.

In the event of an employee becoming disabled, the company endeavours to continue their employment, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

Disclosure of information to the auditors

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

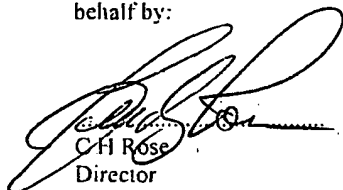
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor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

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

Reappointment of 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 an auditor annually.

The Directors' Report of Microsoft limited, was approved by the Board of directors on 28/03/19 and signed on its behalf by:



CFI Rose
Director

Microsoft Limited

Directors' Responsibilities Statement

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.

Microsoft Limited

Independent Auditor's Report to the Members of Microsoft Limited

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements of the 'Company' which comprise:

- The profit and loss account and other comprehensive income;
- The balance sheet;
- The statement of changes in equity; and
- The related notes 1 to 21.

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 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.

Microsoft Limited

Independent Auditor's Report to the Members of Microsoft 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 this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Microsoft Limited

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

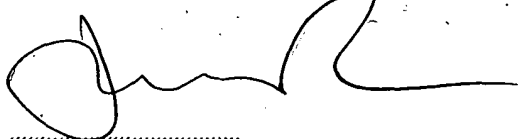
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.



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

Date: 28 March 2018

Microsoft Limited

Profit and Loss Account and Other Comprehensive Income for the Year Ended 30 June 2018

		2018	2017
	Note	£ 000	Restated* £ 000
Turnover	3	2,138,090	1,175,034
Cost of sales		<u>(1,301,431)</u>	<u>(321,781)</u>
Gross profit		836,659	853,253
Distribution costs		(143,259)	(162,214)
Administrative expenses		(558,968)	(586,903)
Interest payable and similar expenses	5	-	(67)
Interest receivable and similar income	5	968	1,003
Other finance income	6	<u>2,133</u>	<u>1,004</u>
Profit on ordinary activities before tax	7	137,533	106,076
Tax on profit on ordinary activities	8	<u>(28,153)</u>	<u>(29,141)</u>
Profit on ordinary activities for the year		<u><u>109,380</u></u>	<u><u>76,935</u></u>

		2018	2017
	Note	£ 000	Restated £ 000
Other Comprehensive Income for the Year			
Profit on ordinary activities for the year		<u>109,380</u>	<u>76,935</u>
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on pension scheme	15	19,202	3,761
Deferred tax on actuarial gain	10	<u>(3,648)</u>	<u>(743)</u>
Total		<u>15,554</u>	<u>3,018</u>
Total comprehensive income for the year		<u><u>124,934</u></u>	<u><u>79,953</u></u>

The above results were derived from continuing operations.

*Restatement in respect of adoption of IFRS 15 (see note 1)

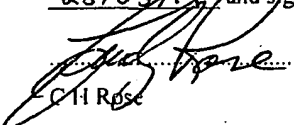
Microsoft Limited

**(Registration number: 01624297)
Balance Sheet as at 30 June 2018**

	Note	2018 £ 000	2017 Restated* £ 000
Fixed Assets			
Tangible assets	9	36,666	33,496
Non current receivables	11	112,624	2,454
Deferred tax assets	10	10,556	15,680
		<u>159,846</u>	<u>51,630</u>
Current assets			
Debtors	11	1,545,139	859,688
Corporation Tax		12,806	1,024
		<u>1,557,945</u>	<u>860,712</u>
Creditors: Amounts falling due within one year			
Creditors: amounts falling due within one year	12	<u>(1,549,077)</u>	<u>(773,255)</u>
Net current assets		<u>8,868</u>	<u>87,457</u>
Total assets less current liabilities		<u>168,714</u>	<u>139,087</u>
Creditors: amounts falling due after more than one year	13	(4,278)	(6,335)
Provisions for liabilities	14	<u>(19,553)</u>	<u>(16,344)</u>
Net assets excluding pension asset		<u>144,883</u>	<u>116,408</u>
Net pension asset	15	<u>104,405</u>	<u>79,950</u>
Net assets		<u>249,288</u>	<u>196,358</u>
Capital and reserves			
Called up share capital	16	15	15
Profit and loss account		<u>249,273</u>	<u>196,343</u>
Shareholders' funds		<u>249,288</u>	<u>196,358</u>

*Restatement in respect of adoption of IFRS 15 (see note 1)

The financial statements of Microsoft Limited were approved and authorised for issue by the Board of Directors on 28/03/19 and signed on its behalf by:


C H Rose
Director

Microsoft Limited

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

	Note	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2017 (Restated)*		15	196,343	196,358
Profit for the year		-	109,380	109,380
Actuarial gain on pension scheme	15	-	19,202	19,202
Deferred tax on actuarial gain	10	-	(3,648)	(3,648)
Total comprehensive income for the year		-	124,934	124,934
Current tax on share based payments		-	6,103	6,103
Deferred tax on share based payments		-	1,423	1,423
Deferred tax on pension		-	489	489
Share-based payment - contribution received		-	40,981	40,981
Dividends	17	-	(121,000)	(121,000)
Total contributions by and distributions to owners		-	(72,004)	(72,004)
At 30 June 2018		15	249,273	249,288

	Note	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2016		15	183,241	183,256
Profit for the year		-	76,935	76,935
Actuarial gain on pension scheme	15	-	3,761	3,761
Deferred tax on actuarial gain	10	-	(743)	(743)
Total comprehensive income for the year		-	79,953	79,953
Current tax on share-based payments		-	4,842	4,842
Deferred tax on share-based payments		-	1,379	1,379
Deferred tax on pension		-	174	174
Share-based payment - contribution received		-	40,354	40,354
Dividends	17	-	(113,600)	(113,600)
Total contributions by and distributions to owners		-	(66,851)	(66,851)
At 30 June 2017 (Restated)*		15	196,343	196,358

*Restatement in respect of adoption of IFRS 15 (see note 1)

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018

1 Accounting policies

1.1 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

Microsoft Limited (the "Company") is a private company, limited by shares, incorporated and domiciled 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 Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

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

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

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

Summary of disclosure exemptions

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

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- and disclosures of transactions with a management entity that provides key management personnel services to the company.

IFRS 15 has been applied for the first time with a full retrospective approach adopted. The impact on prior periods is detailed later in this note.

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

Certain disclosures required by 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.

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

Measurement convention

The financial statements are prepared on the historical cost basis amended for certain items included at fair value.

Going concern

The company had a profit after tax in the year of £109m (2017: £77m) and was in a net asset position of £249m (2017:£196m).

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

The 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 director's continue to adopt the going concern basis in preparing the annual report and accounts.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

I Accounting policies (continued)

Share-based payments

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

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

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Refer to note 19 for details of how the fair value of awards is determined.

Tangible assets

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

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. All other leases are classified as operating leases.

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 statement of financial position 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.

Finance Income

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

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

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 group 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 directors' 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.

Financial instruments

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

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

Taxation

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

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.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

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.

Revenue

The principal activity of the Company during the year was the marketing of computer software, peripherals and video game consoles. As the Company began operating under the "Limited Risk Distributor" model in February 2017, its principal activities include the licensing and distribution of computer software, peripherals, and hardware. The Company now transacts directly with customers in the British market and records revenue and related costs from the Volume Licensing, Online (Business to Consumer), Microsoft Business Solutions ("MBS") and Hardware product lines of business.

Product Revenue and Service and Other Revenue

Product revenue includes sales from operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; video games; and hardware such as PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories. Service and other revenue includes sales from cloud-based solutions that provide customers with software, services, platforms, and content such as Microsoft Office 365, Microsoft Azure, Microsoft Dynamics 365, and Xbox Live; solution support; and consulting services.

Revenue Recognition

Revenue is recognised upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognised net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

Nature of Products and Services

Licences for on-premises software provide the customer with a right to use the software as it exists when made available to the customer. Customers may purchase perpetual licences or subscribe to licences, which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the software. Revenue from distinct on-premises licences is recognised upfront at the point in time when the software is made available to the customer. In cases where we allocate revenue to software updates, primarily because the updates are provided at no additional charge, revenue is recognised as the updates are provided, which is generally rateably over the estimated life of the related device or licence.

Certain volume licensing programs, including Enterprise Agreements, include on-premises licences combined with Software Assurance ("SA"). SA conveys the rights to new software and upgrades released over the contract period and provides support, tools, and training to help customers deploy and use products more efficiently. On-premises licences are considered distinct from SA and therefore separate performance obligations when sold with SA. Revenue allocated to SA is generally recognised rateably over the contract period as customers simultaneously consume and receive benefits, given that SA comprises distinct goods or services that are satisfied over time.

Cloud services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on either a subscription or consumption basis. Revenue related to cloud services provided on a subscription basis is recognised rateably over the contract period. Revenue related to cloud services provided on a consumption basis, such as the amount of storage used in a period, is recognised based on the customer's utilisation of such resources. When cloud services require a significant level of integration and interdependency with software and the individual components are not considered distinct, all revenue is recognised over the period in which the cloud services are provided.

Our hardware is generally highly dependent on, and interrelated with, the underlying operating system and cannot function without the operating system. In these cases, the hardware and software licence are accounted for as a single performance obligation and revenue is recognised at the point in time when ownership is transferred to resellers or directly to end-customers through retail stores and online marketplaces.

Refer to Note 3 - Revenue from contracts with customer for further information, including revenue by significant product and service offerings. For more information on our contract balances, Note 3 on contract balances.

Turnover includes commission receivable by the company under agreements with other group companies.

Trade creditors

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

Trade debtors

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

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

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

1.2 Changes in Accounting Policies and Disclosures

The Company applied IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Revenue from Contracts with Customers

In May 2014, the IASB issued a new standard related to revenue recognition. Under the standard, revenue is recognised when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Management elects to early adopt the standard effective July 1, 2017, using the full retrospective method, which required us to restate each prior reporting period presented. We implemented internal controls and key system functionality to enable the preparation of financial information on adoption.

The most significant impact of the standard relates to our accounting for software licence revenue. Specifically, for Windows 10, we recognise revenue predominantly at the time of billing and delivery rather than rateably over the life of the related device. For certain multi-year commercial software subscriptions that include both distinct software licences and SA, we recognise license revenue at the time of contract execution rather than over the subscription period. Due to the complexity of certain of our commercial licence subscription contracts, the actual revenue recognition treatment required under the standard depends on contract-specific terms and in some instances may vary from recognition at the time of billing. Revenue recognition related to our hardware, cloud offerings (such as Office 365) and professional services remains substantially unchanged.

Adoption of the standard using the full retrospective method required us to restate certain previously reported results, including the recognition of additional revenue and an increase in the provision for income taxes, primarily due to the net change in Windows 10 revenue recognition. In addition, adoption of the standard resulted in an increase in trade and other receivables and other current and non-current assets, driven by unbilled receivables from upfront recognition of revenue for certain multi-year commercial software subscriptions that include both distinct software licences and SA; a reduction of deferred income, driven by the upfront recognition of licence revenue from Windows 10 and certain multi-year commercial software subscriptions; and an increase in deferred income taxes, driven by the upfront recognition of revenue. Refer to Impacts to Previously Reported Profit/(Loss) for the Year below for the impact of adoption of the standard on our financial statements.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

1 Accounting policies (continued)

Impacts to Previously Reported Profit for the Year

Adoption of the standard related to revenue recognition is expected to impact our statement of profit as follows:

Year Ended June 30, 2017	As Reported £'000s	New Revenue Standard Adjustment £'000s	As Adjusted £'000s
Profit and Loss Account and other comprehensive income			
Turnover	1,121,044	53,990	1,175,034
Cost of sales	(267,682)	(54,099)	(321,781)
Administrative expenses	568,819	84	568,903
Profit for the year	77,128	(193)	76,935

Year Ended June 30, 2017	As Reported £'000s	New Revenue Standard Adjustment £'000s	As Adjusted £'000s
Balance Sheet			
Debtors: Amounts falling due within one year	866,923	(7,235)	859,688
Debtors: Amounts falling due after more than one year	-	2,454	2,454
Creditors: Amounts falling due within one year	(778,195)	4,940	(773,255)
Creditors: Amounts falling due after more than one year	(5,983)	(352)	(6,335)
Deferred tax	-	-	-
Profit and loss account	196,536	(193)	196,343

The change did not have a material impact on other comprehensive income for the period.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

The key judgements, excluding those presented below which include estimation uncertainty, are:

Revenue from contracts with customers

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct goods or services that should be accounted for separately versus together may require significant judgement. Certain cloud services, such as Office 365, depend on a significant level of integration and interdependency between the desktop applications and cloud services. Judgement is required to determine whether the software licence is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud services and recognised over time.

Judgement is required to determine the standalone selling price ("SSP") for each separate performance obligation. We use a single amount to estimate SSP for items that are not sold separately, including on-premises licences sold with SA or software updates provided at no additional charge. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount that needs to be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

Due to the various benefits from and the nature of our SA programme, judgement is required to assess the pattern of delivery, including the exercise pattern of certain benefits across our portfolio of customers.

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognise using either the most likely amount or expected value method. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. We recognise revenue only to the extent that it is highly probable that a significant reversal of any incremental revenue will not occur.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Estimates and Assumptions

Revenue from contracts with customers

Key estimates for revenue recognition are: determining the nature and timing of satisfaction of performance obligations, and determining the SSP of performance obligations, variable consideration, and other obligations such as product returns and refunds and product warranties. These estimates are sensitive to changes in circumstances and the actual results and outcomes may differ from management's estimates and assumptions.

The key sources of estimation uncertainty are:

Defined Benefit Pension Scheme

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality rates. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 16.

3 Turnover

Disaggregated turnover disclosures

Disaggregated turnover disclosures are as follows during the periods presented:

By significant product and service offering:

	2018 £ 000	2017 Restated £ 000
Product	1,227,097	213,855
Services and others	910,993	961,179
	<u>2,138,090</u>	<u>1,175,034</u>

The analysis of the company's turnover for the year by class of business is as follows:

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

3 Turnover (continued)

	2018 £ 000	2017 Restated £ 000
Sales to third parties	1,406,803	365,764
Sales within the group	<u>731,287</u>	<u>809,270</u>
	<u>2,138,090</u>	<u>1,175,034</u>

As permitted by Schedule 1, paragraph 68 of the Companies Act 2006, revenue is not analysed by geographical market as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the company.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

3 Turnover (continued)

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognised prior to invoicing, or deferred income when revenue is recognised subsequent to invoicing. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period. We record a receivable related to revenue recognised for multi-year on-premises licences as we have an unconditional right to invoice and receive payment in the future related to those licences. Contract balances were as follows:

Year Ended Balance Sheet	June 30, 2018 £'000s	June 30, 2017 (Restated)* £'000s	June 30, 2016** £'000s
Current Assets			
Trade Debtors	615,781	256,140	57,357
Accrued income - due within one year	2,739	2,454	7,488
Accrued income - due after one year	112,624	2,454	-
Creditors: Amounts falling due within one year			
Deferred income	752,448	288,033	83,352
Creditors: Amounts falling due after more than one year			
Other creditors	-	352	-

Deferred income is comprised mainly of unearned revenue related to volume licensing programmes, which may include SA and cloud services, net of deferred rebates. Deferred income is generally invoiced annually at the beginning of each contract period for multi-year agreements and recognised rateably over the coverage period. Deferred income also includes payments for: consulting services to be performed in the future; Office 365 subscriptions; Xbox Live subscriptions; Windows 10 post-delivery support; Dynamics business solutions; Skype prepaid credits and subscriptions; and other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers, such as invoicing at the beginning of a subscription term with revenue recognised rateably over the contract period, or to provide customers with financing, such as multi-year on-premises licences that are invoiced annually with revenue recognised upfront.

*IFRS 15 has been applied for the first time with a full retrospective approach adopted. The impact on prior periods is detailed (See note 1 for details).

** No adjustment are applied as it has been determined no revenue is materially impacted by the application of IFRS 15 in this period.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

4 Information regarding Directors and Employees

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

	2018 No.	2017 No.
Sales and distribution	2,831	2,846
Administration	193	200
	<u>3,024</u>	<u>3,046</u>

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	369,273	367,839
Social security costs	44,410	41,154
Pension costs, defined benefit scheme	32,056	30,915
	<u>445,739</u>	<u>439,908</u>

One director (2017: two) received remuneration through the Company. All other directors did not receive any remuneration in respect of qualifying services as directors of the Company in the current period or in the prior period and do not have any employment contracts with the Company.

Details of the remuneration of the highest paid director of the company are as follows. Remuneration in respect of qualifying services £770k (2017: £838k, aggregate amount £1,208m) and company contributions to money purchase pension schemes £Nil (2017: £Nil). The highest paid director exercised no share options in the year (2017: £Nil) and had 45,340 shares receivable (2017: 48,585) as per the terms of the equity settled share award scheme outlined in note 19.

One director received shares under a long-term incentive scheme and one director has benefits accruing under a money purchase pension scheme.

At 30 June 2018 there were £2.8m pension contributions outstanding (2017: £2.5m).

The share-based payment charge for the year was £41.0m (2017: £40.4m), refer to note 19.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

5 Other interest receivable and payable

	2018 £ 000	2017 £ 000
Interest receivable from fellow group undertakings	968	1,003
Interest payable to fellow group undertakings	-	(62)
Interest payable to third-parties	-	(5)
	<u>968</u>	<u>936</u>

6 Other finance income

	2018 £ 000	2017 £ 000
Interest income on pension scheme assets	8,991	4,819
Net interest on net defined benefit liability	<u>(6,858)</u>	<u>(3,815)</u>
	<u>2,133</u>	<u>1,004</u>

7 Profit for the financial year

Profit for the financial year is stated after charging/(crediting)

	2018 £ 000	2017 £ 000
Rentals under operating lease	19,752	32,171
Depreciation expense	8,997	11,159
Foreign exchange gains	(334)	(481)
Auditors Remuneration	118	109

- Auditor's remuneration consists of fees payable solely in respect of the audit of the Company's financial statements.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

8 Tax on profit

Income Tax on profit on ordinary activities

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	26,123	27,261
UK corporation tax adjustment to prior periods	(1,394)	2,059
Total Current Tax	<u>24,729</u>	<u>29,320</u>
Deferred taxation		
Deferred Tax - current year	3,034	(808)
Deferred tax - prior year adjustment	390	629
Total deferred taxation	<u>3,424</u>	<u>(179)</u>
Tax expense in the profit and loss account and other comprehensive income	<u><u>28,153</u></u>	<u><u>29,141</u></u>

Reconciliation to tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2017 - 19.75%).

The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	2018 £ 000	2017 Restated £ 000
Profit before tax	<u>137,533</u>	<u>106,076</u>
Corporation tax at standard rate	26,131	20,950
Depreciation on non-qualifying assets	641	3,348
Permanent adjustments	886	615
Share schemes	1,203	1,305
Prior year adjustment	(1,004)	2,688
Short-term timing differences	296	-
Tax rate difference	-	197
Effect of prior year restatement to be taxed in current year	-	38
Total tax charge	<u><u>28,153</u></u>	<u><u>29,141</u></u>

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

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

9 Property, plant and equipment

	Furniture, fittings and office equipment £ 000	Leasehold Improvements £ 000	Computer & technical equipment £ 000	Total £ 000
Cost or valuation				
At 30 June 2017	13,840	41,630	23,521	78,991
Additions	861	9,728	2,490	13,079
Disposals	-	(253)	(762)	(1,015)
Transfers	2	(22)	20	-
At 30 June 2018	14,703	51,083	25,269	91,055
Depreciation				
At 30 June 2017	13,399	13,623	18,473	45,495
Charge for the year	1,371	4,416	3,210	8,997
Eliminated on disposal	-	(63)	(40)	(103)
Transfers	(1,645)	-	1,645	-
At 30 June 2018	13,125	17,976	23,288	54,389
Carrying amount				
At 30 June 2018	1,578	33,107	1,981	36,666
At 30 June 2017	441	28,007	5,048	33,496

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

10 Deferred tax

	2018 £ 000	2017 £ 000
Timing differences in respect of capital allowances	3,468	5,040
Share-based payments	12,321	11,715
Defined benefit pension scheme	(5,233)	(1,075)
	<u>10,556</u>	<u>15,680</u>
	2018 £ 000	2017 £ 000
Opening balance at 1 July	15,680	14,692
Other timing differences	37	-
Credited / (charged) to the profit and loss account in the year	(3,424)	179
(Charged) to other comprehensive income in the year	(3,648)	(743)
Credited to equity in the year	1,911	1,552
Closing balance at 30 June	<u>10,556</u>	<u>15,680</u>

The Finance Act 2017, which provides for reductions in the main rate of corporation tax from 21% to 22% effective from 1 April 2017, to 19% effective from 1 April 2018 and 17% effective from 1 April 2020 was substantively enacted on 15 September 2017. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

11 Debtors

	2018 £ 000	2017 Restated £ 000
Trade debtors	615,781	256,140
Provision for impairment of trade debtors	(2,540)	(992)
Net trade debtors	613,241	255,148
Amounts owed by fellow group undertakings	246,700	406,781
Other debtors	12,212	2,968
Accrued income	2,739	2,454
Prepayments	670,247	192,337
Non-current receivables	112,624	2,454
Total current trade and other debtors	<u>1,657,763</u>	<u>862,142</u>

Interest is received on amounts owed by group undertakings, using a Reuter's one-month interest rate.

Intercompany debtors are repayable on demand. All amounts are due within one year and unsecured.

Prepayments are primarily made up of Intercompany Unearned COGS, which are the Intercompany element of Third Party Unearned Revenue. In accordance with matching principals and to ensure Microsoft Limited's margin achieve the agreed Transfer Price, the intercompany element must be recognised in line with the Third party revenue transactions.

Non-current receivables are unbilled revenue which is a result of timing differences between revenue recognition and the invoicing to customers. Refer to note 3 for more details.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

12 Creditors : amounts falling due within one year

	2018 £ 000	2017 Restated £ 000
Trade creditors	21,258	31,455
Other creditors	4,975	4,069
Other taxation and social security	137,167	60,800
Accrued expenses	357,359	141,816
Deferred income	752,448	288,033
Amount due to fellow group undertakings	275,870	247,082
	<u>1,549,077</u>	<u>773,255</u>

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

13 Creditors : amounts falling due after more than one year

	30 June 2018 £ 000	2017 Restated £ 000
Deferred rent	4,278	5,983
Other creditors	-	352
	<u>4,278</u>	<u>6,335</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

14 Provisions for Liabilities

	Dilapidations £ 000	Onerous contracts £ 000	Other provisions £ 000	Total £ 000
At 1 July 2017	3,189	125	13,030	16,344
Charged in the year	641	-	2,592	3,233
Utilised in the year	-	(24)	-	(24)
At 30 June 2018	<u>3,830</u>	<u>101</u>	<u>15,622</u>	<u>19,553</u>

The provision for dilapidations is being built up to provide for potential charges at the end of the lease period on rental properties. On average the leases expire within 5 to 10 years of the year end date.

The onerous lease provision is being built up to provide for rent expenses payable under Operating Lease Contracts for the properties which will not be used, sub-let or surrendered in the foreseeable future. The properties are being actively marketed and it is the company's intention to utilise/release this provision within the next year.

Other provisions relate to National Insurance Contributions (NIC) which will become payable on the vesting of share awards. The share awards vest over a 5 year period. Employees do not make any payment for the share awards. The provision has been calculated based on the share price at the balance sheet date of \$98.61 and the rate of NIC is 13.8%.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

15 Pension and other schemes

Pension Commitments

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 March 2013.

The company is the sponsoring employer for the defined benefit pension scheme, however until 1 January 2017 there had been a stated policy for charging the net defined benefit cost in full to Microsoft Mobile UK Limited, a fellow subsidiary under common control. Therefore, the financial statements of Microsoft Mobile UK Limited included the full cost of the defined benefit pension scheme until that date. The pension balance was transferred to the company on 1 January 2017 for book value.

The assets of the scheme are held separately from those of Microsoft Limited, being managed by Blackrock.

To develop the assumption for the expected long-term rate of return on assets, the company considered the current level of expected returns on government bonds and cash and the expectations for future returns of these asset classes. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 2.9% assumption for 2018 (2017 : 2.6%).

Composition of plan assets:

	2018 £ 000	2017 £ 000
Cash and equivalents	2,163	2,582
Debt Instruments	344,695	350,003
Fair value of plan assets	<u>346,858</u>	<u>352,585</u>

	2018 £ 000	2017 £ 000
Fair value of plan assets	346,858	352,585
Present value of plan liabilities	(242,453)	(272,635)
Net pension scheme assets	<u>104,405</u>	<u>79,950</u>

The amounts recognised in profit and loss are as follows:

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

15 Pension and other schemes (continued)

	2018 £ 000	2017 £ 000
Interest on obligation	(6,858)	(3,815)
Interest income on pension scheme assets	8,991	4,819
Total	<u>2,133</u>	<u>1,004</u>

	2018 £ 000	2017 £ 000
Effect of changes in financial assumptions	20,850	1,663
Effect of changes in experience adjustments	(1,534)	8,135
Return on plan assets	<u>(114)</u>	<u>(6,037)</u>
Total defined benefit gain recognised in OCI	<u>19,202</u>	<u>3,761</u>

The company expects to contribute £3,120,000 to its Defined Benefit Pension Scheme in FY19

The projected defined benefit cost for the year ending 30 June 2019 is a credit of £3,088,000. Although the funded status in the Scheme has improved, the lower discount rate results in a lower net interest cost and hence the expected Statement of comprehensive income credit.

Reconciliation of present value of defined benefit obligation is as follows:

	2018 £ 000	2017 £ 000
Opening defined benefit obligation	272,635	-
Interest cost	6,858	3,815
Effect of changes in experience adjustments	1,534	(8,135)
Transfer of pension scheme	-	286,554
Effect of changes in financial assumptions	(20,850)	(1,663)
Benefits paid	<u>(17,724)</u>	<u>(7,936)</u>
Present value at end of year	<u>242,453</u>	<u>272,635</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

15 Pension and other schemes (continued)

Reconciliation of fair value of plan assets is as follows:

	2018 £ 000	2017 £ 000
Opening fair value of scheme assets	352,585	-
Interest income on plan assets	8,991	4,819
Contributions by employer	3,120	1,560
Transfer of pension scheme	-	360,179
Return on plan assets	(114)	(6,037)
Benefits paid	(17,724)	(7,936)
	<u>346,858</u>	<u>352,585</u>

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

15 Pension and other schemes (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2018 %	2017 %
Discount rate	2.90	2.60
Money purchase section projection rate	4.56	4.65
RPI Inflation	3.00	3.20
CPI Inflation	2.10	2.30
RPI max 5%	3.00	3.10
RPI max 2.5%	2.15	1.80
CPI max 3%	2.10	2.20
Deferred pension revaluation	<u>2.10</u>	<u>2.20</u>

Post retirement mortality assumptions

SINA Light rated up by 1 year for males and unadjusted for females, with CMI 2012 projections and a 1.5% p.a. long term rate of improvement.

16 Share capital

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
15000 ordinary shares of £1 each	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

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

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

17 Dividends

	30 June 2018 £ 000	30 June 2017 £ 000
Final dividend of £8,067 (2017 £7,573) per ordinary share	<u>121,000</u>	<u>113,600</u>

18 Obligations under operating leases

Operating leases commitments

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 Land and Buildings £ 000	2017 Land and Buildings £ 000
Operating leases which expire:		
Within one year	13,346	13,457
In two to five years	52,795	53,480
In over five years	<u>34,906</u>	<u>46,249</u>
	<u>101,047</u>	<u>113,186</u>

The company leases certain office property under operating leases. The average lease term is 7.8 years.

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

19 Share-based payments

Scheme details and movements

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

The movements in the number of share options during the year were as follows:

	2018 Number	2017 Number
Outstanding, start of year	3,063,237	3,828,454
Granted during the year	1,046,542	1,419,001
Forfeited during the period	(386,640)	(686,604)
Exercised during the year	(1,233,312)	(1,322,196)
Expired during the period	16,135	(3,236)
Transferred in, during the period	142,941	120,350
Transferred out, during the period	(107,742)	(292,532)
Outstanding, end of year	<u>2,541,161</u>	<u>3,063,237</u>

Fair value of options granted

The weighted average fair value of options granted during the period at measurement date was £57.47 (2017 - £40.40).

The weighted average share price at date of exercise of share options exercised during the year was £32.02 (2017 - £58.50).

Charge/credit arising from share-based payments

The total charge for the year for stock awards and employee share purchases was £41.0m (2017 - £40.4m) of which £Nil (2017 - £Nil) related to equity-settled share-based payment transactions.

Outstanding share options

The unvested awards as at 30 June 2018 had a weighted average remaining contractual life of 4.12 years (2017: 3.71 years).

Microsoft Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

19 Share-based payments (continued)

Share awards

The company recognised total charges of £40.2m and £39.8m in relation to share award transactions during 2018 and 2017 respectively.

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

Employee share purchase plan

The company recognised a further £0.8m (2017: £0.6m) relating to the employee share purchase plan during the year.

20 Ultimate parent and controlling party

The immediate parent company is Microsoft RI Holdings, registered address Clarendon House, 2 Church Street, Hamilton HM 1022, Bermuda. The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. Copies of Microsoft Corporation annual report are available on written request from the Investor Relations Department, at the registered address Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

21 Related party transactions

As at 30 June 2018 and 30 June 2017, the company was a wholly owned subsidiary of Microsoft Corporation. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 11 and 12.