

Registered number: 07057499

PLAYGROUND GAMES LIMITED

Playground Games Limited

Financial Statements

For the Year Ended 31 December 2018

THURSDAY



A96YFKDV

A14

11/06/2020

#127

COMPANIES HOUSE

PLAYGROUND GAMES LIMITED

Company Information

Directors Benjamin Owen Orndorff
Keith Ranger Dolliver

Registered number 07057499

Registered office The Broadgate Tower
Third Floor
20 Primrose Street
London
United Kingdom
EC2A 2RS

Independent auditors Deloitte LLP
Statutory Auditor
Abbot House
Abbey Street
Reading
RG1 3BD
United Kingdom

PLAYGROUND GAMES LIMITED

Contents

	Page
Strategic report	1 - 3
Directors' report	4 - 6
Independent auditor's report to the shareholders	7 - 9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13 - 26

PLAYGROUND GAMES LIMITED

Strategic Report For the Year Ended 31 December 2018

The directors present their Strategic Report for the year ended 31 December 2018.

Acquisition

The ultimate parent undertaking is Microsoft Corporation (Microsoft). Microsoft is based in the USA and is listed on the NASDAQ. On 30 May 2018, Microsoft acquired Playground Games Holding Limited, the Company's immediate parent entity.

Fair review of the business

The primary purpose of Playground Games Limited is the writing and development of video games software. In the year ended 31 December 2018 the Company continued development on Forza Horizon 4 which went on sale late in the year, and continued development on the 'unannounced' project started in 2017.

Pre 30 May 2018 turnover was based on development milestones for Forza Horizon 4 and the 'unannounced' project, along with royalties from Forza Horizon 2 and Forza Horizon 3.

Post 30 May 2018 revenue represents commission from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred and commission received from a fellow group company based on a recharge of costs incurred.

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

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

The business continues to work to maximise the potential of the Group's innovation in the electronic gaming sector.

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.

Working Capital

The Company has a strong working capital position. The directors continue to monitor this closely to ensure that the maximum advantage is made of the funds available.

PLAYGROUND GAMES LIMITED

Strategic Report (continued) For the Year Ended 31 December 2018

Principal Risks and Uncertainties

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

Credit risk

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

Liquidity risk

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

Market risk

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and wider long-term market trends.

The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

The beginning of 2020 saw a major outbreak of coronavirus (COVID19) which has been declared by the World Health Organisation to be a pandemic. This pandemic has occurred after the Company's year-end and is considered a non-adjusting adjusting post balance sheet event. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

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

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

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

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacenter load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacenter operations.

PLAYGROUND GAMES LIMITED

**Strategic Report (continued)
For the Year Ended 31 December 2018**

Principal Risks and Uncertainties (continued)

- 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.

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 will be disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2019, which will be publicly available.

This report was approved by the board on **June 9, 2020** and signed on its behalf.



Benjamin Owen O'Donnell
Director

PLAYGROUND GAMES LIMITED

Directors' Report For the Year Ended 31 December 2018

The directors present their Annual Report and audited financial statements of the Company for the year ended 31 December 2018.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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.

Directors

The directors who served during the year and up to the date of this report were:

Benjamin Owen Orndorff (appointed 30 May 2018)
Keith Ranger Dolliver (appointed 29 May 2018)
Gavin Raeburn (resigned 30 May 2018)
Trevor Roy Williams (resigned 30 May 2018)
Nicholas Charles Wheelwright (resigned 30 May 2018)
Ralph Michael Fulton (resigned 30 May 2018)

PLAYGROUND GAMES LIMITED

Directors' Report (continued) For the Year Ended 31 December 2018

Going Concern

The Company's business activities, together with the factors likely to affect its future development and details of the Company's exposure to risk are described in the Strategic Report.

The beginning of 2020 saw a major outbreak of coronavirus (COVID19) 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.

Financial Instruments

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

Disabled persons

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

Employee involvement

It is the Company's policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing company performance.

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

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

PLAYGROUND GAMES LIMITED

**Directors' Report (continued)
For the Year Ended 31 December 2018**

Auditors

The external auditor of the Company for the prior financial year was Ernst & Young LLP. Deloitte LLP was appointed by the Company to replace Ernst & Young LLP as auditor for the year ended 31 December 2018.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

This report was approved by the board of directors on behalf.

June 9, 2020

and signed on its


Benjamin Owen Orndorff
Director

Independent Auditors' Report to the Shareholders of Playground Games Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 22.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Independent Auditors' Report to the Shareholders of Playground Games Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic report and the directors 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 directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent Auditors' Report to the Shareholders of Playground Games Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

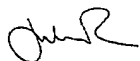
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Julian Rae (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Reading, United Kingdom
Date: 9 June 2020

PLAYGROUND GAMES LIMITED

**Statement of Comprehensive Income
For the Year Ended 31 December 2018**

	Note	2018 £	2017 £
Turnover	4	27,112,145	56,525,919
Cost of sales		(22,702,379)	(42,930,515)
Gross profit		4,409,766	13,595,404
Administrative expenses		(5,597,507)	(8,105,288)
Other operating income	5	-	417
Operating (loss)/profit	6	(1,187,741)	5,490,533
Gain on sale of intellectual property		30,170,102	-
Interest receivable and similar income	9	180,249	16,108
Interest payable and expenses	10	(12,681)	(13,962)
Profit before tax		29,149,929	5,492,679
Tax on profit	11	(5,575,734)	27,715
Profit for the financial year		23,574,195	5,520,394

There was no other comprehensive income for 2018 (2017: £NIL).

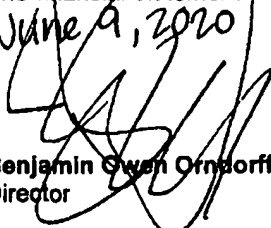
The notes on pages 13 to 26 form part of these financial statements.

PLAYGROUND GAMES LIMITED

**Balance Sheet
As at 31 December 2018**

	Note	2018 £	2017 £
Fixed assets			
Tangible assets	12	3,560,504	1,632,423
Investments	13	1	1
		<u>3,560,505</u>	<u>1,632,424</u>
Current assets			
Debtors: amounts falling due within one year	14	33,452,701	6,629,676
Cash at bank and in hand		1,199,445	9,039,098
		<u>34,652,146</u>	<u>15,668,774</u>
Creditors: amounts falling due within one year	15	(8,631,397)	(5,757,934)
Net current assets		<u>26,020,749</u>	<u>9,910,840</u>
Total assets less current liabilities		<u>29,581,254</u>	<u>11,543,264</u>
Creditors: amounts falling due after more than one year	16	-	(19,938)
Provisions for liabilities			
Deferred tax	17	-	(29,587)
		<u>-</u>	<u>(29,587)</u>
Net assets		<u>29,581,254</u>	<u>11,493,739</u>
Capital and reserves			
Called up share capital	18	14,280	14,280
Profit and loss account		29,566,974	11,479,459
		<u>29,581,254</u>	<u>11,493,739</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

June 9, 2020

Benjamin Owen Orndorff
 Director

The notes on pages 13 to 26 form part of these financial statements.

PLAYGROUND GAMES LIMITED

**Statement of Changes in Equity
For the Year Ended 31 December 2018**

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2017	14,280	5,959,065	5,973,345
Comprehensive Income for the year			
Profit for the year	-	5,520,394	5,520,394
Total comprehensive income for the year	-	5,520,394	5,520,394
At 1 January 2018	14,280	11,479,459	11,493,739
Comprehensive income for the year			
Profit for the year	-	23,574,195	23,574,195
Total comprehensive income for the year	-	23,574,195	23,574,195
Dividends	-	(5,486,680)	(5,486,680)
At 31 December 2018	14,280	29,566,974	29,581,254

The notes on pages 13 to 26 form part of these financial statements.

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2018

1. General information

Playground Games Limited is a company limited by shares incorporated in England and Wales. The registered office is The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS.

2. Accounting policies

2.1 Basis of preparation

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

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

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

2.2 Consolidation

The Company has taken advantage of the exemption from preparing consolidated financial statements contained in Section 400 of the Companies Act 2006 on the basis that it is a subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA state.

The information is included in the consolidated financial statements of Microsoft Corporation as at 30 June 2019 and these financial statements may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

The Company has taken advantage of disclosure exemption from preparing a Statement of Cash Flows contained in FRS 102 Section 7.

2.3 Turnover

Pre-Acquisition turnover is measured at the fair value of consideration received or receivable for services rendered, net of discounts and value added tax.

Post Acquisition turnover represents commission received from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred and commission received from the subsidiary company based on a recharge of costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

Revenue from rendering of services is measured by reference to the milestones agreed in the contract and an estimate is made where a milestone is in progress and not yet completed provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that is recoverable.

Revenue from royalties is recognised as earned in accordance with the criteria in the related contracts, based on sales levels of the games achieved in the period and is as advised by the third party in accordance with the contract between the Company and the third party.

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.4 Taxation

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

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

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

2.5 Foreign currencies

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

2.6 Operating leases

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

2.7 Tangible fixed assets

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

Depreciation

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

- Short-term leasehold property - straight line over the life of the lease
- Fixtures and fittings - 20% straight line
- Computer equipment - 33% straight line

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

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.8 Fixed asset investments

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

Impairment

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

When it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

2.9 Hire purchase and finance leases

Assets held under finance leases are recognised in the Statement of Financial Position as assets and liabilities at the lower of the fair value of the assets and the present value of the minimum lease payments, which is determined at the inception of the lease term. Any initial direct costs of the lease are added to the amount recognised as an asset.

Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability using the effective interest method. Finance charges are allocated to each period so as to produce a constant rate of interest on the remaining balance of the liability.

2.10 Provisions

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

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

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.11 Defined contribution plans

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

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

2.12 Financial reporting standard 102 - reduced disclosure exemptions

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

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A; and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Microsoft Corporation as at 30 June 2019 and these financial statements may be obtained from 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

2.13 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.

2.14 Finance Income

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

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.15 Other operating income

Other operating income includes revenue from all other operating activities which are not related to the principal activities of the Company.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies the directors are required to make judgements, estimations 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 which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both the current and future periods.

4. Turnover

Turnover arises from:

	2018 £	2017 £
Royalties received	1,349,791	14,285,608
Revenue from milestones	15,366,462	42,240,311
Commission received	10,395,892	-
	<u>27,112,145</u>	<u>56,525,919</u>

Overseas turnover amounted to 47% (2017: 68%) of the total turnover for the year.

5. Other operating income

	2018 £	2017 £
Other operating income	-	417
	<u>-</u>	<u>417</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

6. Operating (loss)/profit

The operating profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	913,359	347,967
Operating lease rentals	684,850	467,173
Fees payable for the audit of the financial statements	56,000	20,000
	<u> </u>	<u> </u>

7. Staff costs

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

	2018 £	Restated 2017 £
Wages and salaries	12,367,816	13,573,029
Social security costs	1,492,924	2,327,347
Other pension costs	662,705	502,165
	<u> </u>	<u> </u>
	<u>14,523,445</u>	<u>16,402,541</u>

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

	2018	2017
Operational staff	173	128
Directors	2	4
	<u> </u>	<u> </u>
	<u>175</u>	<u>132</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

8. Directors' remuneration

The directors aggregate remuneration in respect of qualifying services was:

	2018 £	2017 £
Remuneration	236,618	3,077,416
Company contributions to defined contribution pension schemes	6,526	15,356
	<u>243,144</u>	<u>3,092,772</u>

The highest paid director received remuneration of £88,988 (2017 - £1,258,824).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £NIL (2017 - £14,715).

9. Other interest receivable and similar income

	2018 £	2017 £
Intercompany interest receivable	159,670	-
Other interest receivable	3,151	-
Bank deposits	17,428	16,108
	<u>180,249</u>	<u>16,108</u>

10. Interest payable and similar expenses

	2018 £	2017 £
Finance leases and hire purchase contracts	6,421	13,962
Other interest payable	6,260	-
	<u>12,681</u>	<u>13,962</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

11. Taxation

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	5,591,979	1,026,743
Adjustments in respect of previous periods	45,712	(1,083,804)
	<u>5,637,691</u>	<u>(57,061)</u>
Total current tax	<u>5,637,691</u>	<u>(57,061)</u>
Deferred tax		
Origination and reversal of timing differences	(29,224)	33,224
Changes to tax rates	3,077	(3,878)
Adjustments in respect of previous periods	(35,810)	-
	<u>(61,957)</u>	<u>29,346</u>
Total deferred tax	<u>(61,957)</u>	<u>29,346</u>
Taxation charge/(credit) on profit	<u>5,575,734</u>	<u>(27,715)</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

11. Taxation (continued)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is higher than (2017 - lower) than the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit before tax	29,149,929	5,492,679
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	5,538,487	1,057,153
Effects of:		
Expenses not deductible for tax purposes	28,588	2,814
Adjustments to tax charge in respect of prior periods	9,902	(1,083,804)
Tax rate changes	3,077	(3,878)
Uplift on capital expenditure treated as qualifying land remediation expenditure	(4,320)	-
Total tax charge/(credit) for the year	5,575,734	(27,715)

Factors that may affect future tax charges

The standard rate of UK Corporation Tax was reduced from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% due to take effect from 1 April 2020. This has been substantively enacted in the Finance Act 2016 on 6 September 2016 and in accordance with accounting standards, has been reflected in the Company's financial statements.

In the prior year the Company received a payment from HMRC in respect of VGTR of £1,218,087 relating to a prior year. All subsequent claims have been made from a separate company within the group.

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

12. Tangible fixed assets

	Short-term leasehold property £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2018	385,948	170,164	3,109,946	3,666,058
Additions	2,404,123	225,829	211,488	2,841,440
At 31 December 2018	2,790,071	395,993	3,321,434	6,507,498
Depreciation				
At 1 January 2018	264,072	115,025	1,654,538	2,033,635
Charge for the year on owned assets	227,112	23,561	662,686	913,359
At 31 December 2018	491,184	138,586	2,317,224	2,946,994
Net book value				
At 31 December 2018	2,298,887	257,407	1,004,210	3,560,504
At 31 December 2017	121,876	55,139	1,455,408	1,632,423

Included in the amounts for computer equipment above are the following amounts related to leased assets and assets acquired under hire purchase contracts:

	2018 £
Cost:	
At 1 January 2018 and 31 December 2018	106,937
Depreciation:	
At 1 January 2018	106,937
Depreciation provided during the year	-
At 31 December 2018	106,937
Carrying amount:	
At 1 January 2018 and 31 December 2018	-

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

13. Fixed asset investments

	Trade investments £
Cost or valuation	
At 1 January 2018	1
At 31 December 2018	<u>1</u>
At 31 December 2017	<u>1</u>

Investment in group undertakings

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

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

14. Debtors

	2018 £	2017 £
Amounts owed by group undertakings	31,925,663	-
Other debtors	741,585	208,229
Prepayments and accrued income	753,082	6,421,447
Deferred taxation	32,371	-
	<u>33,452,701</u>	<u>6,629,676</u>

The intercompany loan is repayable on demand and carries a fixed interest rate of 1.1%. All amounts are due within one year and are unsecured.

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

15. Creditors: Amounts falling due within one year

	2018 £	2017 £
Obligations under leases and hire purchase contracts	19,937	88,659
Trade creditors	409,656	279,708
Amounts owed to group undertakings	106,659	257,086
Corporation tax	5,528,647	704,603
Other taxation and social security	540,044	1,315,047
Other creditors	58,690	72,245
Accruals and deferred income	1,967,764	3,040,586
	<u>8,631,397</u>	<u>5,757,934</u>

The intercompany loan is non-interest bearing and is repayable on demand. All amounts are due within one year and are unsecured.

16. Creditors: Amounts falling due after more than one year

	2018 £	2017 £
Obligations under leases and hire purchase contracts	-	19,938
	<u>-</u>	<u>19,938</u>

17. Deferred taxation

	2018 £	2017 £
At beginning of year	(29,587)	(241)
Charged to profit or loss	26,148	(29,346)
Adjustments in respect of prior years	35,810	-
At end of year	<u>32,371</u>	<u>(29,587)</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

17. Deferred taxation (continued)

	2018 £	2017 £
Accelerated capital allowances	22,394	(29,587)
Short term timing differences - trading	9,977	-
	<u>32,371</u>	<u>(29,587)</u>

**18. Called up share capital
Issued, called up and fully paid**

	2018 No	£	2017 No	£
Ordinary shares	14,280	14,280	14,280	14,280

19. Finance lease commitments

	2018 £	2017 £
Not later than 1 year	19,937	88,659
Later than 1 year and not later than 5 years	-	19,937
	<u>19,937</u>	<u>108,596</u>

20. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	726,694	675,738
Later than 1 year and not later than 5 years	2,594,828	2,596,152
Later than 5 years	2,426,787	3,077,149
	<u>5,748,309</u>	<u>6,349,039</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements
For the Year Ended 31 December 2018**

21. Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £662,705 (2017: restated £502,165).

22. Controlling party

On 30 May 2018, the acquisition of Playground Games Holding Limited by Microsoft Corporation was declared unconditional, making this entity the Company's ultimate parent undertaking from this date. The immediate parent undertaking is Playground Games Holdings Limited.

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