

Microsoft Danmark ApS

Kanalvej 7, 2800 Kgs. Lyngby

CVR no.13612870

Annual report for the year 1 July 2019 - 30 June 2020

Approved at the Company's annual general meeting on December 4th, 2020

Chairman:

DocuSigned by:
Chantal Pernille Patel
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STATEMENT BY THE EXECUTIVE BOARD

Today, the Executive Board have discussed and approved the annual report of Microsoft Danmark ApS ("the Company") for the financial year 1 July 2019-30 June 2020.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Company's financial statements give a true and fair view of the company's financial position at 30 June 2020 and of the results of the Company's operations for the financial year 1 July 2019 - 30 June 2020.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Executive Board: 23-November-2020

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Nana Sejbæk

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Benjamin Owen Orndorff

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Independent auditor's report

To the shareholders of Microsoft Danmark ApS

Opinion

We have audited the financial statements of Microsoft Danmark ApS for the financial year 1 July 2019 - 30 June 2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30 June 2020 and of the results of its operations for the financial year 1 July 2019 - 30 June 2020 in accordance with the Danish Financial Statements Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, 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.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has 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 and the additional requirements applicable in Denmark 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.

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Independent auditor's report

To the shareholders of Microsoft Danmark ApS

Auditors responsibilities for the audit of the financial statements (continued).

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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Independent auditor's report

To the shareholders of Microsoft Danmark ApS

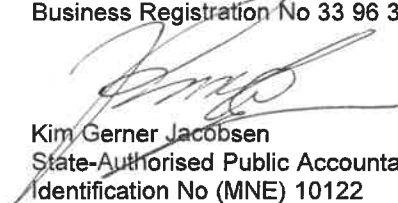
In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.


Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 23-November-2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Kim Gerner Jacobsen
State-Authorised Public Accountant
Identification No (MNE) 10122



Jacob Medard Frederiksen
State-Authorised Public Accountant
Identification No (MNE) 44110

Microsoft Danmark ApS**5 of 26****MANAGEMENT'S REVIEW****Company details**

Name	Microsoft Danmark ApS
Address, Postal code, City	Kanalvej 7, 2800 Kgs. Lyngby
CVR no.	13612870
Established	1 November 1989
Registered office	Lyngby-Taarbæk
Financial year	1 July 2019 - 30 June 2020
Website	www.microsoft.com
E-mail	danmark@microsoft.com
Executive Board	Nana Sejbæk Benjamin Owen Orndorff
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6, 2300 Copenhagen S

Financial highlights

	2020	2019	2018	2017	2016
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	4,358,013	2,341,336	1,250,136	1,128,347	1,092,883
Operating profit (EBIT)	290,561	244,673	233,727	217,391	198,873
Net financial expense	(4,121)	(236)	(1,139)	(762)	29,110
Profit for the year	740,789	189,985	180,618	164,619	183,329
Total assets	4,827,287	3,702,655	1,773,404	1,090,687	1,108,630
Investment in property, plant and equipment	11,008	10,862	12,484	4,095	25,016
Equity	1,224,812	673,923	664,938	648,320	666,701

Microsoft Danmark ApS**6 of 26****MANAGEMENT'S REVIEW****Financial highlights****Financial ratios**

Operating margin	6.7%	10.5%	18.7%	19.3%	18.2%
Solvency ratio	25.4%	18.2%	37.5%	59.4%	60.1%
Return on equity	78.0%	28.4%	27.5%	25.0%	28.5%

Average number of full-time employees	438	416	423	452	452
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Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015".

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin	$\frac{\text{Operating profit(EBIT)} \times 100}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity excl. non-controlling interests, year-end} \times 100}{\text{Total Equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year excl. non-controlling interests} \times 100}{\text{Average equity excl. non-controlling interests}}$

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MANAGEMENT'S REVIEW

Management commentary

Business review

The activities of Microsoft Danmark ApS include the distribution of software, IT services and hardware to customers as well as the provision of consultancy, support services and marketing. The expansion of direct distribution activities since 2018 continues to impact on the financial results and balances.

Financial review

The Company's revenue in the year amounted to DKK 4,358,013 thousand (2019: DKK 2,341,336 thousand). The revenue growth exceeded the expectations due to continuous expansion and growing share of direct distribution activities in the Company's revenue for the fiscal year 2019/2020.

Net result for the year was DKK 740,789 thousand (2019: DKK 189,985 thousand), affected by exit-tax implications under the transition rules of Section 2A of the Danish Corporation Tax Act triggered by internal group restructuring effective July, 1st 2019. The restructuring and consequent taxation impact considered as non-recurring event and not attributable to the primary business activities of the Company.

Management assessed the Company's financial performance for the year as satisfactory.

Non-financial matters

Microsoft's mission is to 'Empower every person and every organization on the planet to achieve more', with a strategy to build best-in-class platforms and productivity services for a mobile-first, cloud-first world. Microsoft's platforms will harmonize the interests of end users, developers and IT better than any competing ecosystem or platform.

We go to market based on six solutions areas, where our customers expect us to lead and innovate;

1. Data & AI
2. Apps & infrastructure
3. Business applications
4. Modern Workplace
5. Modern Life
6. Gaming

As a company, we acknowledge the many new opportunities and challenges posed by the new era of digitization and by the fourth industrial revolution. To be successful and to support the digital transformation of Microsoft and our customers in an ever-changing world, we believe it requires a mindset open to constant learning, experimenting and collaboration across teams and competencies; we call this a growth mindset.

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MANAGEMENT'S REVIEW

Leveraging technology as a growth enabler

In the fiscal year 2019/20, Microsoft Denmark continued its efforts in accelerating the digital transformation of its customers businesses, leveraging technology as a growth enabler. As a global organization, the year was strongly marked by the COVID-19 pandemic, and as such, a focus for Microsoft Denmark in the later half of the year was on supporting customers and partners coping with the situation. The year also saw strong efforts in Sustainability as Microsoft in early January announced its ambitious goal to reduce and ultimately remove its carbon footprint, while upskilling continued to be a strong driver for the business, also focusing on deepening the technical skills of employees to advice and serve customer's needs.

Knowledge resources

In July 2019, Nana Bule was appointed as General Manager for Microsoft Danmark and Iceland.

In July 2019, Anne Marie Kindberg was appointed Marketing & Operations Lead, taking over from Nana Bule.

In January 2020, Peter Quarfordts Skov was appointed Enterprise Commercial Lead, taking over from Frederik Braun.

In May 2020, Maria Damgaard Hald was appointed Public Sector Lead, taking over from Peter Quarfordts Skov.

Employees

Microsoft's business is based on the knowledge and innovation created by people. It is therefore our clear objective to attract, retain and develop the best employees, so that Microsoft can continue to deliver the best solutions in the market. Since this requires motivated and dedicated employees, Microsoft focuses on maintaining and developing its position as one of Denmark's best workplaces. As one element of this, Microsoft is strategically dedicated to diversity across gender, age, nationality, religion and sexual orientation.

During 2019/20 Microsoft Denmark was rated in top 3 as one of the most attractive employers in the Nordics among students of Engineering, IT and Business (Universum).

Statutory CSR report

Microsoft Danmark ApS does not have any local CSR policy, including Human Rights, Climate or Environment, as it is part of the Microsoft Group, who has developed a Sustainability report that covers the entire group. Microsoft's Sustainability report can be found on <https://www.microsoft.com/en-us/about/corporate-responsibility/reports-hub>

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MANAGEMENT'S REVIEW

Account of the gender composition of Management

Microsoft Danmark has specific goals for women in management along with a strategy for how to reach these goals. In general, the IT- and technology industry appeals more to men than to women due to its technical foundation. With this in mind, we have set some goals for the number of women in management as well as the number as women in the whole.

- The top management team consist of 10 people, of which 4 are females. This gives a 40% female representation, which is considered positive (target: at least 30%)
- The full management population is 44% women: which is considered positive (target: at least 30%)
- The total population consists of 36% women: which is considered a positive progress from 33% last year (target: at least 30%)

The Executive Board comprises of a man and a woman. The Company has therefore achieved a balance of gender with regards to Executive Board. It is Microsoft Danmark's intent and policy to increase the number of females in all management layers in order to reflect the country population best possible.

The action plan for increasing especially the middle management female representation builds on already ongoing initiatives such as female targeted employer branding materials, a female ambassador program, female mentoring in the hiring process, and a series of new initiatives including increased work life balance measures and a strong focus on inclusion in general to make all thrive regardless of gender and background.

Events after the balance sheet date

No events occurred after the balance sheet date that would impact significantly on the financial statements. The impacts of the COVID-19 pandemic have been considered, and mitigating actions including employees working remotely from home allow operations to continue to function effectively.

Outlook

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. Management expects no significant change in the Company's activities in the future. The COVID-19 pandemic may continue to impact our business operations and financial operating results, and there is uncertainty in the nature and degree of its continued effects over time. 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.

Under the business model transition started in 2018 and driven by continuous expansion of the direct distribution of software, IT services and hardware to the customers, Management expects an increase in the revenue up to 50% for the fiscal year 2020/21 compared to previous year. In consideration with the resources to be allocated to support revenue growth, profit before tax in 2020/21 is expected to be 10-15% higher compared to 2019/20.

Management continuously and closely monitor the latest developments of the COVID-19 outbreak and its impact on people and organizations.

Microsoft Danmark ApS**10 of 26****STATEMENT OF PROFIT OR LOSS**

	Note	2020 DKK'000	2019 DKK'000
Revenue	2	4,358,013	2,341,336
Cost of sales		(3,221,448)	(1,280,935)
Gross margin		<u>1,136,565</u>	<u>1,060,401</u>
Distribution costs	3	(752,392)	(709,483)
Administrative expenses	3	(93,314)	(85,546)
Operating profit		<u>290,859</u>	<u>265,372</u>
Other operating income		0	20,014
Other operating expenses		(298)	(40,713)
Profit before net financials		<u>290,561</u>	<u>244,673</u>
Financial income	4	42	750
Finance expenses	5	(4,163)	(986)
Profit before tax		<u>286,440</u>	<u>244,437</u>
Tax for the year	6	454,349	(54,452)
Profit for the year		<u>740,789</u>	<u>189,985</u>

Microsoft Danmark ApS**11 of 26****STATEMENT OF FINANCIAL POSITION**

	Note	30 June 2020 DKK'000	30 June 2019 DKK'000
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Goodwill	7	0	0
		<u>0</u>	<u>0</u>
<i>Property, plant and equipment</i>			
Other fixtures and fittings, tools and equipment	8	13,287	12,093
Leasehold improvements	8	13,490	14,611
		<u>26,777</u>	<u>26,704</u>
<i>Other non-current assets</i>			
Trade receivables		94,207	101,000
Deferred tax assets	9	471,202	3,211
		<u>565,409</u>	<u>104,211</u>
Total non-current assets		<u>592,186</u>	<u>130,915</u>
<i>Current Assets</i>			
Trade receivables		1,081,023	1,071,212
Receivables from group entities	13	1,127,845	1,075,906
Other receivables		0	30
Prepayments		2,026,233	1,424,498
		<u>4,235,101</u>	<u>3,571,646</u>
Cash		0	94
Total current assets		<u>4,235,101</u>	<u>3,571,740</u>
TOTAL ASSETS		<u>4,827,287</u>	<u>3,702,655</u>

Microsoft Danmark ApS**12 of 26****STATEMENT OF FINANCIAL POSITION**

	Note	30 June 2020 DKK'000	30 June 2019 DKK'000
Equity and liabilities			
Equity			
Share capital		201	201
Profit and loss account		939,811	483,822
Dividend proposed for the year		284,800	189,900
Equity holders' share of equity		<u>1,224,812</u>	<u>673,923</u>
Total equity		<u>1,224,812</u>	<u>673,923</u>
Non-current liabilities			
Other provisions	10	3,751	3,729
Income tax payable		4,967	52,427
Total non-current liabilities		<u>8,718</u>	<u>56,156</u>
Current liabilities			
Trade payables		13,432	14,941
Payables to group entities	13	624,210	710,183
Income tax payable		63,658	54,983
Other payables	11	714,344	625,753
Deferred income		2,178,113	1,566,716
Total current liabilities		<u>3,593,757</u>	<u>2,972,576</u>
Total liabilities		<u>3,602,475</u>	<u>3,028,732</u>
Total equity and liabilities		<u>4,827,287</u>	<u>3,702,655</u>

Microsoft Danmark ApS**13 of 26****STATEMENT OF CHANGES IN EQUITY**

	Note	Share Capital DKK'000	Profit and loss account DKK'000	Dividend proposed for the year DKK'000	Total DKK'000
Equity at 1 July 2018		201	483,737	181,000	664,938
Transfer, see "Appropriation of profit"	15	0	85	189,900	189,985
Dividend distribution		0	0	(181,000)	(181,000)
Equity at 30 June 2019		201	483,822	189,900	673,923
Transfer, see "Appropriation of profit"	15	0	455,989	284,800	740,789
Dividend distribution		0	0	(189,900)	(189,900)
Equity at 30 June 2020		201	939,811	284,800	1,224,812

The share capital consists of 401 shares of DKK 500 each. The shares have not been divided into classes. There have been no changes to share capital in the past 5 financial years.

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NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies**

The annual report of Microsoft Danmark ApS for the year ended 30 June 2020 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The presentation of Annual report for the year ended 30 June 2020 has been changed to follow an IFRS presentation of the Statement of financial position. The new presentation has not resulted in changes of equity or result and provides a true and fair view of the Statement of financial position.

There has been no other changes in the accounting policies as per last year's Annual report.

1.1 Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the ultimate parent company, Microsoft Corporation.

1.2 Basis of recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a prior event and it is probable that future economic benefits will flow out of the Company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

1.3 Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

1.4 Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

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NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****1.4 Foreign currency translation**

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Property, plant and equipment, intangible assets and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

1.5 Income statement**(a) Revenue**

Revenue primarily consists of live distribution of software and hardware to Danish customers. Furthermore, the revenue comprises to some extent intra-group commissions and invoiced sales of consultancy services.

Microsoft Danmark ApS operates this business under a "Limited Risk Distributor" model, the terms of which are defined in a distribution and inter-company service agreement signed with Microsoft Ireland Operations Limited (MIOL).

Revenue is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts.

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.

Maintenance and subscription products are recognized proportionately over the term of the contract. Revenue from sales of packaged goods to and through distributors and resellers is recognized at the point in time when ownership is transferred to distributors and resellers or directly to end-customers.

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NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****(b) Cost of sales**

Cost of goods sold relate to those costs which are directly attributable to the revenue generating activities of the company and are recognised in the income statement in line with the related recognition of revenue.

(c) Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Company's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc. as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

(d) Administrative expenses

Administrative expenses comprise costs incurred in the year to manage and administer the Company, including expenses related to administrative staff, management, office premises, office expenses as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Company.

(e) Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

(f) Other operating expenses

Other operating expenses comprise items secondary to the entities' activities, including losses on disposal of intangible assets and items of property, plant and equipment.

(g) Financial income and expenses

Financial income and expenses comprises interests, including those to group entities net capital gains and losses on transactions in foreign currencies as well as tax relief and surcharges under the Danish Tax Prepayment Scheme, etc.

(h) Tax for the year

The Company is covered by the Danish rules on compulsory joint taxation. The current Danish corporation tax is allocated by settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits.

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the administrative company according to the current rates applicable to interest allowances, and jointly taxed companies which do not pay their due taxes, as a maximum, a surcharge according to the current rates applicable to interest surcharges to the administrative company.

Microsoft Danmark ApS**17 of 26****NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****(h) Tax for the year**

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

1.6 Balance sheet**(a) Goodwill**

Goodwill is amortised on a straight-line basis over its estimated useful life which is fixed based on the experience gained by Management for each business area. The amortisation period is usually five years, however, in certain cases it may be up to 20 years for strategically acquired entities with a strong market position and a long-term earnings profile if the longer amortisation period is considered to give a better reflection of the benefit from the relevant resources.

Goodwill is written down to the lower of recoverable amount and carrying amount.

(b) Property, plant and equipment

Fixtures and fittings, tools and equipment, as well as leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition, and preparation costs of the asset until the date when the asset is available for use.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Fixtures and fittings, tools and equipment	3 to 5 years
Computers (excl. servers)	Fully depreciated in month of acquisition
Leasehold improvements	Over the agreed lease period, not to exceed 10 years

Fixed assets are written down to the recoverable amount, if this value is lower than the carrying amount.

Profits and losses from the sale of property, plant and equipment are recognised in the income statement under the same items as the related depreciation.

(c) Impairment of assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

Where an impairment loss is recognised on a group of assets, a loss must first be allocated to goodwill and then to the other assets on a pro rata basis.

Microsoft Danmark ApS**18 of 26****NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****(c) Impairment of assets**

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

(d) Receivables

Receivables are measured at amortised cost, usually equaling nominal value less provisions for bad debts. Provisions for bad debts are calculated on the basis of an assessment of the expected collectibility. Trade receivables with a due date greater than 12 months are considered as a long-term receivable and are classed as Other non-current assets in the balance sheet.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

(e) Prepayments

Prepayments recognised under current assets comprise expenses incurred concerning subsequent financial years. Prepayments are measured at cost.

(f) Cash

Cash comprises cash in hand and bank deposits.

(g) Equity*Dividend*

Dividend proposed for the year is recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity.

(h) Provisions

Provisions comprise anticipated expenses relating to restoration, etc. Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or fair value. If the obligation is expected to be settled far into the future.

(i) Income tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Income tax receivable" or "Income tax payable".

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NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****(i) Income tax and deferred tax**

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

(j) Liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

(k) Deferred income

Deferred income, recognised under "Liabilities", comprises payments received concerning income in subsequent years.

1.7 Segment information

Segment information is given for revenue broken down by business segment. The segmentation is in accordance with the entity's internal financial management.

2. Segment information

	2020 DKK'000	2019 DKK'000
Products	1,696,678	906,266
Service and other	1,674,692	433,621
Commission income	802,842	721,675
Consultancy income	183,801	279,774
	<u>4,358,013</u>	<u>2,341,336</u>

Microsoft Danmark ApS**20 of 26****NOTES TO THE FINANCIAL STATEMENTS****3. Staff costs and incentive plans**

	2020 DKK'000	2019 DKK'000
Wages and salaries	564,412	541,040
Pensions	45,869	42,217
Other social security costs	3,281	923
	<u>613,562</u>	<u>584,180</u>

Staff costs are recognised in the financial statements under the following line items:

Distribution costs	581,180	555,173
Administrative expenses	32,382	29,007
	<u>613,562</u>	<u>584,180</u>

Average number of full-time employees	<u>438</u>	<u>416</u>
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By reference to section 98b (3), (ii), of the Danish Financial Statements Act, remuneration to management is not disclosed.

Incentive programmes

In addition to the performance bonus program, the Company has a stock award program, which also includes the Executive Board.

The award program comprise of stocks in the ultimate parent company. The Danish Company does not pay for these rights.

4. Financial income

	2020 DKK'000	2019 DKK'000
Foreign exchange gains	0	750
Other interest income	42	0
	<u>42</u>	<u>750</u>

Microsoft Danmark ApS**21 of 26****NOTES TO THE FINANCIAL STATEMENTS****5. Financial expenses**

	2020 DKK'000	2019 DKK'000
Foreign exchange losses	2,501	0
Other interest expenses	1,662	986
	<u>4,163</u>	<u>986</u>

6. Tax for the year

	2020 DKK'000	2019 DKK'000
<i>Tax for the year</i>		
Estimated tax charge for the year	(4,967)	(54,983)
Adjustment of the deferred tax charge for the year	455,970	349
Tax adjustments, prior year	3,346	182
	<u>454,349</u>	<u>(54,452)</u>

Adjustment of the deferred tax charge for the year comprises special items of DKK 531 million disclosed in Note 9 Deferred Tax Asset.

7. Intangible assets

	Goodwill DKK'000	Total
Cost at 1 July 2019	126,141	126,141
Cost at 30 June 2020	<u>126,141</u>	<u>126,141</u>
Amortisation and impairment losses at 1 July 2019	126,141	126,141
Amortisation and impairment losses at 30 June 2020	<u>126,141</u>	<u>126,141</u>
Carrying amount at 30 June 2020	<u>0</u>	<u>0</u>

Microsoft Danmark ApS**22 of 26****NOTES TO THE FINANCIAL STATEMENTS****8. Property, plant and equipment**

	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improvements DKK'000	Total
Cost at 1 July 2019	40,101	22,548	62,649
Additions	9,444	1,564	11,008
Disposals	(3,957)	(239)	(4,196)
Cost at 30 June 2020	45,588	23,873	69,461
Depreciation and impairment losses at 1 July 2019	28,008	7,937	35,945
Depreciation	8,250	2,446	10,696
Disposals	(3,957)	0	(3,957)
Depreciation and impairment losses at 30 June 2020	32,301	10,383	42,684
Carrying amount at 30 June 2020	13,287	13,490	26,777

9. Deferred tax asset

	30 June 2020 DKK'000	30 June 2019 DKK'000
Deferred tax at 1 July	3,211	2,862
Adjustment of the deferred tax charge for the year	455,970	349
Adjustment of the deferred tax charge for prior year	12,021	0
Deferred tax at 30 June	471,202	3,211

The deferred tax charge relates to:

Intangible assets	455,472	0
Property, plant and equipment	696	3,007
Provisions	825	204
Other taxable temporary differences	14,209	0
	471,202	3,211

Microsoft Danmark ApS**23 of 26****NOTES TO THE FINANCIAL STATEMENTS****9. Deferred tax asset**

Effective from 1st of July 2019, Microsoft Danmark ApS is no longer subject to Section 2A of the Danish Corporation Tax Act due to organizational restructuring registered the same date. According to transition rules included in Section 2A, Microsoft Danmark ApS is deemed to have acquired assets and liabilities from Microsoft Corporation as of 1 July 2019 at fair value. This resulted in taxable income for Microsoft Corporation, accounted for at the amount of DKK 2,402 million with a corresponding 22% income tax liability, which is in consideration with prior year regulations on general provisions, this amounted to DKK 515.5 million.

On 18th of March 2020 income tax on exit taxation of DKK 515.5 million was fully paid by Microsoft Corporation to Danish Tax Authorities.

Under the same transition rules of Section 2A of the Danish Corporation Tax Act, Microsoft Danmark ApS recognized a step-up on the value of deferred taxes of DKK 531 million as a consequence of fair value of assets and liabilities has exceeded the current tax value on deemed acquisition. The deferred income tax asset has been recognized to the extent that realization of the related tax benefit through future taxable profits is highly probable, as Microsoft Danmark ApS has a history of being profit-making company and realizing taxable profits.

The deferred income tax asset is expected to be realized over the period more than 5 years through future taxable profits.

10. Other provisions

	30 June 2020 DKK'000	30 June 2019 DKK'000
Opening balance at 1 July	3,729	3,480
Provision for the year	261	249
Restoration release	(239)	0
Other provisions at 30 June	3,751	3,729
<i>Other provisions are expected to mature within:</i>		
> 5 years	3,751	3,729

Other provisions includes provisions for restoration of leased premises and similar provisions.

Microsoft Danmark ApS**24 of 26****NOTES TO THE FINANCIAL STATEMENTS****11. Other payables**

	30 June 2020 DKK'000	30 June 2019 DKK'000
Payroll Liabilities	110,110	111,558
Other payables	338,327	232,433
Compensated absence commitment	94,691	83,354
VAT and other indirect taxes	171,216	198,408
	<u>714,344</u>	<u>625,753</u>

12. Contractual obligations and contingencies, etc.**12.1 Other contingent liabilities**

The Company is covered by the Danish rules on compulsory joint taxation and has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties in the joint taxation unit. At 30 June 2020, the net taxes payable to SKAT by the companies included in the joint taxation amounted to DKK 11,820 thousand. Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends, etc., may entail that the companies' liability will increase.

	30 June 2020 DKK'000	30 June 2019 DKK'000
<i>Other financial obligations</i>		
<i>Other rent and lease liabilities</i>		
Rent and lease liabilities	100,020	112,501
	<u>100,020</u>	<u>112,501</u>

Microsoft Danmark ApS and Microsoft Development Center Copenhagen ApS have entered into a joint contract to lease a shared domicile located in Lyngby north of Copenhagen. The two companies are jointly liable for the 10 year rent commitment, with a remaining obligation amounting to DKK 190 million as of 30 June 2020. Microsoft Danmark ApS is expected to pay 45% of the rent commitment.

Microsoft Danmark ApS**25 of 26****NOTES TO THE FINANCIAL STATEMENTS****13. Related parties**

Microsoft Danmark ApS related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Microsoft Ireland Research	Dublin, Ireland	Participating interest

Information about consolidated financial statements

Ultimate parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Microsoft Corporation	Redmond, WA, USA	www.microsoft.com

Related party transactions

Microsoft Danmark ApS was engaged in the below related party transactions, in addition to dividend distribution and remuneration of management:

	30 June 2020 DKK'000	30 June 2019 DKK'000
Commission income	802,842	721,675
Service fee (expenses)	(2,906)	(3,008)
Cost of sales	(3,221,448)	(1,280,935)
Receivables from group entities - Short-term	1,127,845	1,075,906
Payables to group entities	624,210	710,183

During the year an office rent reimbursement was received related to Lyngby. The amount of reimbursement income received was for DKK 19,607 thousand. See note 12 for further details.

Microsoft Danmark ApS**26 of 26****NOTES TO THE FINANCIAL STATEMENTS****14. Fees paid to auditors appointed at the annual general meeting**

	2020 DKK'000	2019 DKK'000
Fee for statutory audit	454	305
Assurance engagements	0	47
Other assistance	0	45
Total fee paid to Auditor	454	397

15. Appropriation of profit

	30 June 2020 DKK'000	30 June 2019 DKK'000
<i>Recommended appropriation of profit</i>		
Proposed dividend recognised under equity	284,800	189,900
Profit and Loss account	455,989	85
	740,789	189,985