

Microsoft Development Center Copenhagen ApS

Kanalvej 7, 2800 Kgs. Lyngby

CVR no. 76 24 72 18

Annual report for the year 1 July 2015 - 30 June 2016

Approved at the annual general meeting of shareholders on 22 November 2016

Chairman:



.....Tomas Haagen.....
Advokat
Gorrissen Federspiel
H.C. Andersens Boulevard 12
1553 København V

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Microsoft Development Center Copenhagen ApS for the financial year 1 July 2015 - 30 June 2016

The annual report is prepared in accordance with the Danish Financial Statements Act

In our opinion, the financial statements give a true and fair view of the Company's financial position at 30 June 2016 and of the results of the Company's operations for the financial year 1 July 2015 - 30 June 2016.

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

Kgs Lyngby, 3 November 2016
Executive Board


Charlotte Mark Christensen
CEO

Board of Directors:

Benjamin Owen Orndorff
Chairman


Keith Ranges Doliver


Jean-Yves Art

Independent auditors' report

To the shareholder of Microsoft Development Center Copenhagen ApS

Independent auditors' report on the financial statements

We have audited the financial statements of Microsoft Danmark ApS for the financial year 1 July 2015 - 30 June 2016, which comprise an 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.

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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 30 June 2016 and of the results of its operations for the financial year 1 July 2015 - 30 June 2016 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 3 November 2016

DELOITTE

Statsautoriseret Revisionspartnerselskab
CVR no. 33.96 35.56


Kim Gerner
State Authorised Public Accountant


Max Damborg
State Authorised Public Accountant

Management's review

Company details

Name	Microsoft Development Center Copenhagen ApS
Address, Postal code, City	Kanalvej 7, 2800 Kgs. Lyngby
CVR No.	76 24 72 18
Established	2 November 1984
Registered office	Lyngby-Taarbæk
Financial year	1 July 2015 - 30 June 2016
Website	www.microsoft.com/da-dk/mdcc
Telephone	+45 45 67 80 00
Board of Directors	Benjamin Owen Orndorff, Chairman Keith Ranger Dolliver Jean-Yves Art
Executive Board	Charlotte Mark Christensen, CEO
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6, 2300 Copenhagen S

Management's review

Financial highlights

DKK'000	2015/16	2014/15	2013/14	2012/13	2011/12
Key figures					
Revenue	459,185	478,118	474,994	503,455	504,452
Gross margin	157,881	147,846	151,166	168,715	167,295
Operating profit	40,001	46,513	44,903	53,288	44,802
Net financials	4,625	14,347	10,419	29,270	79,868
Profit/loss for the year	35,906	47,843	45,326	69,777	111,874
Total assets					
Investment in property, plant and equipment	35,688	9,674	4,923	6,556	4,939
Equity	9,002,699	8,556,193	8,508,350	4,716,964	4,647,187
Financial ratios					
Operating margin	8.7%	9.7%	9.5%	10.6%	8.9%
Gross margin	34.4%	30.9%	31.8%	33.5%	33.2%
Solvency ratio	97.9%	98.8%	98.8%	97.7%	97.7%
Return on equity	0.4%	0.6%	0.7%	1.5%	2.4%
Average number of employees					
	292	316	329	342	368

Operating review

The Company's business review

Microsoft Development Center Copenhagen ApS is one of Microsoft's strategic international development centers. The development center develops business applications for the global market and the majority of our employees are highly specialized software developers recruited from all over the world. Microsoft Development Center Copenhagen employs people from Denmark and Eastern European countries in particular but also from Southern Europe, Asia, South America, the US, the Middle East and the African continent. Our employees count more than 40 different nationalities, making it one of the most international companies in Denmark.

Microsoft Development Center Copenhagen develops business applications for Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM). The products are marketed under the Microsoft Dynamics brand. They include Microsoft Dynamics CRM, Microsoft Dynamics AX, Microsoft Dynamics NAV and the new Microsoft Dynamics 365.

As a part of Microsoft, our mission is to empower every person and every organization on the planet to achieve more through best-in-class platforms & productivity services for a mobile-first, cloud-first world.

Management's review

Management commentary

Financial review

The business applications developed here are sold through Microsoft subsidiaries worldwide, including the Danish subsidiary, Microsoft Denmark. The subsidiaries work with an ecosystem of local and international partners who sell, customize and deploy the products to customers. Therefore, the net turnover consists exclusively of intragroup sales that are directly linked to the cost level of the company. As such, the company's net turnover does not reflect market share or the turnover of individual products but more effective cost management.

Result for the year was DKK 36 million compared to DKK 48 million last fiscal year. The result is described as satisfactory.

In the fiscal year, the Company has made a tax payment of DKK 411 million regarding a difference of opinion relative to the valuation of assets following the acquisition of Navision in 2002.

The parent company has financed the tax payment through a contribution to the Company. The Contribution has in the annual report been recognized directly in the equity. If, the tax dispute, contrary to expectation, requires additional tax payments, the parent company will refund the payments through further contributions (cf. note 11 in the financial statements).

The Company does not agree with the Danish tax authorities' assessment and consequently the assessment has been appealed to the Tax Tribunal.

The Company has assessed that it has a strong case and consequently the tax payment has been recognized as a receivable, although the final outcome of the tax case is always encumbered with some uncertainty (cf. note 8 in the financial statements).

As part of a companywide restructuring announced by Microsoft in March 2016, and particularly within Microsoft Studios, game development activities under Press Play in Denmark were discontinued.

Non-financial matters

New facility

In November 2015, Microsoft Development Center Copenhagen and Microsoft Denmark moved together in a new facility in Kongens Lyngby. While continuing as two separate business entities, the co-location will further position Microsoft in Denmark as an innovative and attractive workplace.

Knowledge resources

Intellectual capital

Microsoft Development Center Copenhagen collaborates with other Microsoft development centers around the world with each center having its core competencies. The collaboration is based on a distributed development model focused on optimizing the interaction between centers. This strategic business model offers flexibility as resources are relocated, project teams are composed and tasks placed where it appears most suitable with regards to competencies and in order to optimize the organization.

This, together with the fact that Microsoft Development Center Copenhagen employs both full time employees and vendors, in particular in connection with bigger software productions, means that the number of employees varies continually. Currently the company counts around 300 full time employees and vendors sourced from across the world.

Management's review

Management commentary

Research and development activities

Microsoft Development Center Copenhagen drives a major part of Microsoft's innovation and development of business applications.

Our Microsoft Dynamics products are amongst the leading end-to-end solutions in the global market. They provide comprehensive core business management functionality for small, local businesses to large, international organizations.

As an international development center, we welcome customers and partners from all over the world wishing to discuss Microsoft Dynamics solutions with R&D leaders and specialists. The Microsoft Executive Briefing Center Copenhagen (EBC) is in charge of larger visits. During the financial year 2015/2016, the EBC delivered more than 100 briefings, touching 590 accounts and welcoming 1,300 guests.

- Microsoft Dynamics 365

Microsoft is on a mission to help every organization and every individual achieve more. To that end we're seeking to reinvent personal productivity and business processes. Microsoft Dynamics 365 is the next step on our journey. Announced in July 2016 - Dynamics 365 will become generally available later this year. We're keen to help existing Dynamics customers understand more about our ambition and how Dynamics 365 fits into our plans for the Dynamics products and services customers are already using.

Later this year Microsoft Dynamics CRM and Microsoft Dynamics AX will come together to create the Microsoft Dynamics 365 Enterprise edition. The Business edition will be founded on Microsoft Project "Madeira" which has been in public preview from April 2016. Project "Madeira" is based on the Microsoft Dynamics NAV platform and several other Microsoft services and will launch as Microsoft Dynamics 365 for Financials. Dynamics 365 for Financials is a completely reinvented business management solution for small and midsize businesses (SMBs). It connects business processes with the productivity tools in Office 365 to help SMBs grow sales, manage finances and streamline operations. Dynamics 365 for Financials is public cloud service running on Microsoft Azure (a true multi-tenant public cloud service on Microsoft Azure). Customers can access the service on the Web, or using apps for Windows, iOS or Android devices.

- Microsoft Dynamics NAV

Microsoft Dynamics NAV is a global enterprise resource planning (ERP) solution that provides small and midsize businesses greater control over their financials and can simplify their supply chain, manufacturing, and operations. It's quick to implement and easy to use, with the power to support your growth ambition.

For the Microsoft Dynamics NAV team, the highlight of the past year was the release of Microsoft Dynamics NAV 2016 that was launched worldwide in October 2015. New capabilities include new streamlined, easy-to-use native apps for all form factors of devices. Increase business insight with pre-built Microsoft Power BI dashboards and data connections. Expanded document management, workflow, and Optical Character Recognition (OCR) capabilities designed to help SMBs automate processes and eliminate paper-based transactions and more.

Microsoft Dynamics NAV team will release Microsoft Dynamics NAV 2017 in the fourth quarter of calendar year 2016, a continued development of the business management solution, optimized for a mobile-first, cloud-first world.

- Microsoft Dynamics C5

Microsoft Dynamics C5 is developed and sold exclusively to the Danish and Icelandic markets. With more than 87,000 implementations in different industries, Microsoft Dynamics C5 provides simple and intuitive functionality and proven technology to support and optimize business processes for entrepreneurs and small companies.

- Microsoft Dynamics AX

Management's review

Management commentary

Microsoft Dynamics AX is an ERP solution targeting medium-sized and large companies. Microsoft Dynamics AX provides built-in industry functionality along with comprehensive core ERP functionality supporting all important areas of activity including financial- and human resources, operations management, sales and marketing, purchasing, reporting and supply chain management. It provides companies with a centralized view of the organizational tasks through a role-tailored functionality. In addition, it offers extensive multi-site functionality aimed at companies operating in multiple locations, time zones and languages.

Microsoft Dynamics AX is developed in a distributed model with Microsoft Development Center Copenhagen as the Center of Excellence for Supply Chain Management.

Our focus this past year has been the release of the New Dynamics AX that brings the product to the cloud and introduces a brand new user experience that is optimized for the mobile-first, cloud-first world. The market reception of the new Dynamics AX has been very positive and it is clear that AX has successfully made its transition to the cloud. Following this, the next major release of Microsoft Dynamics AX includes significant functional enhancements that will widen the reach of AX in many industries and reduce cost and complexity of many implementations due to reduced need for customization of the product. This includes support for consignment, a new Cost Accounting Module and significant improvements in the way AX supports high volume Distribution Centers as some of the most noteworthy investments.

The next major version of AX also marks a transition to a new world by the adoption of the new name Dynamics 365. In parallel with this, the team is focusing on building SaaS solutions on and around Dynamics 365 in line with the market adoption of this style of solution delivery.

• Microsoft Dynamics CRM

Microsoft Dynamics CRM is a customer relationship management application that provides sales, service, and marketing capabilities. It helps companies make the connections that build loyalty and maximize the value of customer relationships.

Microsoft Dynamics CRM is developed in a distributed model across several Microsoft R&D centers. The Danish-based CRM team was established in November 2012. Our core focus and main highlight of the past year was the Fall 2015 and Spring 2016 CRM releases for which the team delivered features in the area of Mobility. In Fall 2015 the team released a new version of Dynamics Marketing with new SMS Marketing enhancement followed by several update releases bringing ongoing new functionality and value to customers. In addition, the team contributed to many enhancements of the Microsoft Social Engagement solution which has monthly release cadence. In the coming year, besides continuing delivery of monthly updates to Microsoft Social Engagement, the main goal is a new version of Marketing solution based on Azure and CRM platform planned for Spring 2017.

Statutory CSR report

Social responsibility (CSR) is an integrated part of Microsoft's and the development center's business strategy. Microsoft Development Center Copenhagen's statutory account on CSR is given in Microsoft's 2016 Citizenship Report. The highlights include Microsoft's efforts to address climate change through an industry-leading internal carbon fee and new policies designed to ensure that U.S. suppliers provide paid leave to their employees. In FY16, Microsoft employees contributed \$133 million to more than 18,000 nonprofits worldwide through our matching funds employee giving program. That's in addition to the more than \$1 billion in technology donations Microsoft provided to more than 100,000 nonprofit organizations around the world. Initiatives like YouthSpark seek to increase access to computer science education for all youth worldwide, especially those from under-represented background and Microsoft's goal is to keep special focus on Diversity and Inclusion in the next financial year.

The report can be found here: <https://www.microsoft.com/en-us/about/corporate-responsibility/>. For more details, please also visit <https://www.microsoft.com/en-us/about/corporate-responsibility/reporting-approach> to find information about FY16 focus areas.

Examples of Microsoft Development Center Copenhagen's initiatives and engagement in strengthening the local software economy

Management's review

Management commentary

The development center invests substantial time and resources in ensuring the best framework conditions for driving R&D in Denmark through several activities in the following areas:

- Talent development

Microsoft Development Center Copenhagen works to strengthen IT-education in Denmark and raise interest in IT among young people, and girls in particular, in collaboration with universities and educational institutions in Denmark. Among the initiatives in this area can be mentioned the Easter Digikidz Camp, where children are invited to a 3 days of education in the use of IT, Employees volunteering in Coding Pirates workshops introducing coding to children in Primary school. The development center is also vocal in the local media landscape about the need to focus on IT-education to form the employees of the future.

Microsoft Development Center Copenhagen last year facilitated the Danish round of BEST Engineering contest, a European engineering competition carried out among technical students from 95 technical universities in 33 countries. It also held an International student hackathon, Copenhacks, in collaboration with DTU and Major League Hacking which was a success and included participants from all over the world.

The development center continually has several students from around the world affiliated and a large proportion of students are then employed at the company after completing their internship.

- Attraction and retention of international talent

Microsoft Development Center Copenhagen works actively on giving input on how to provide attractive framework conditions for companies so they can attract international talent and highly skilled IT-professionals from all over the world choosing to come to work in Denmark. The development center is often considered a showcase of diversity and plays a leading role in various initiatives and partnerships aiming at promoting diversity and inclusion in Denmark and in Danish workplaces. In order for international employees to stay at Microsoft Development Center Copenhagen, it is crucial that they can find proper accommodation, and that the employee and the accompanying family settles well in Denmark. The development center therefore works to ensure a smooth and as simple relocation process as possible. In addition to relocation assistance, employees are offered help to find a home, a school for their children and advice on tax regulations as well as joining the expat community in Denmark.

However, working with integration and retention of international employees is not an isolated task. Microsoft Development Center Copenhagen therefore collaborates actively with Danish companies and international companies based in Denmark, industry organizations, authorities and organizations such as DI Consortium for Global Talent, Copenhagen Capacity and Lyngby -Taarbæk City of Knowledge and Urban Development to create the best environment for foreign talents in Denmark. Among initiatives can be mentioned the Talent Attraction Project in collaboration with Copenhagen Capacity, aiming to increase global awareness and the attractiveness of Denmark among highly skilled international talent, and the development of a regional Talent Strategy in partnership with a range of private and public stakeholders in the Copenhagen region. The spouse program in collaboration with Lyngby-Taarbæk City of Knowledge is another example of initiatives, that aim to help accompanying family members to create a network within the local community and help to settle well and find work in Denmark.

In moving to Lyngby, Microsoft has become an active member of the Lyngby-Taarbæk "City of Knowledge and Urban Development" network with employee participation in many of the network's initiatives. The network is a triple helix initiative driven by local companies, university and municipality aiming at attracting and retaining knowledge-based businesses and talent, supporting Lyngby-Taarbæk's ambition to be among the leading university and knowledge cities in the Northern region.

- Contribution to the Danish business environment

Management's review

Management commentary

Microsoft Development Center Copenhagen backs Danish innovation and entrepreneurship by organizing so-called TechTalks. Developers from the region, together with the development center's own employees, are invited to meet with internationally renowned IT-specialists who, at a very advanced technical level, share their knowledge and the most recent developments in their specific area of competence.

Microsoft Development Center Copenhagen will continue its focused work to strengthen the framework conditions for doing R&D in Denmark, with particular focus on talent and advocating for a national talent strategy, and expects that this, not the least owing to the company's engagement in a range of networks and collaborations, will continue to lead to tangible improvements. The Managing Director of Microsoft Development Center Copenhagen is currently chair of Meetingplace (an association attracting international congresses to Denmark), member of the Board of Directors for the American Chamber of Commerce in Denmark and DI Digital (the IT-chapter of the confederation of Danish Industries), in the exec committee for DI Consortium for Global talent and has the corporate presidency for Jet-Net (which aims to increase interest in the technical and natural sciences through collaboration between Schools and companies).

Account of the gender composition of management

Part of Microsoft's mission is to promote diversity and inclusion within the company culture. As one of the most international and culturally diverse companies in Denmark, Microsoft Development Center Copenhagen is living these values today. However, there is particular focus on attraction and retention of female employees at leadership, managerial as well as operational level as women are underrepresented in all areas today. This is due to low numbers of female candidates in the field as a whole (as few women chose Software Engineering studies).

In line with Microsoft global staffing policy, and to answer the Danish law on underrepresented groups in management, Microsoft Development Center Copenhagen has a targeted plan to promote female representation within the center. In 2013, we set forth a 4-year aspirational target of female representation (all-up and at managerial level) to reach 20% by 2017. Today 15.8% of employees at the development center are women. At managerial level, female representation is at 15.9%. The primary reason for the current numbers at managerial level is that the candidate pool is limited due to low numbers of female employees. The company has already achieved a balance of gender with regards to Executive Board. Board of Directors has no female representation at the moment

Part of the initiatives in place to increase female representation is female targeted employer branding material, support for activities highlighting the need for more girls in STEM such as a "Girls day in Science" and collaboration with DTU (The Danish Technical University) to attract more female candidates to study Software Engineering. The Development center also has HR initiatives where focus is on female attraction and a female mentoring program for new hires driven by managers, as well as a collaboration with Microsoft Global Talent Acquisition to focus on female graduates for interviews where possible. We also have good experience recruiting female candidates from countries such as Rumania, Ukraine and Poland for our software engineering positions.

Post balance sheet events

No events have occurred after the balance sheet date which materially affect the financial year.

Outlook

For the coming fiscal year, the company expects an increase in turnover and profits due to hiring new employees.

Financial statements for the period 1 July 2015 - 30 June 2016

Income statement

Note	DKK'000	2015/16	2014/15
	Revenue	459,185	478,118
2	Production costs	-301,304	-330,272
	Gross profit	157,881	147,846
2	Distribution costs	-13,031	-14,940
2	Administrative expenses	-104,849	-86,393
	Operating profit	40,001	46,513
3	Financial income	5,133	15,933
	Financial expenses	-508	-1,586
	Profit before tax	44,626	60,860
4	Tax for the year	-8,720	-13,017
	Profit for the year	35,906	47,843
	Proposed profit appropriation		
	Retained earnings	35,906	47,843
		35,906	47,843

Financial statements for the period 1 July 2015 - 30 June 2016

Balance sheet

Note	DKK'000	2015/16	2014/15
	ASSETS		
	Non-current assets		
5	Intangible assets		
	Goodwill	0	2,392
		0	2,392
6	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	13,599	7,362
	Leasehold improvements	24,349	1,624
	Property, plant and equipment in progress	0	5,062
		37,948	14,048
7	Investments		
	Receivables from group entities	4,747,985	4,761,442
		4,747,985	4,761,442
	Total non-current assets	4,785,933	4,777,882
	Current assets		
	Receivables		
	Receivables from group entities	128,595	102,601
9	Deferred tax assets	4,432	2,883
8	Income taxes receivable	4,248,380	3,762,323
	Other receivables	32,693	11,111
	Prepayments	84	63
		4,414,184	3,878,981
	Cash	72	54
	Total current assets	4,414,256	3,879,035
	TOTAL ASSETS	9,200,189	8,656,917

Financial statements for the period 1 July 2015 - 30 June 2016

Balance sheet

Note	DKK'000	2015/16	2014/15
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	37,264	37,264
	Retained earnings	8,965,435	8,518,929
	Total equity	9,002,699	8,556,193
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	13,825	8,048
	Payables to group entities	88,195	0
	Other payables	95,470	92,676
		197,490	100,724
	Total liabilities other than provisions	197,490	100,724
	TOTAL EQUITY AND LIABILITIES	9,200,189	8,656,917

- 1 Accounting policies
- 10 Collateral
- 11 Contractual obligations and contingencies, etc.
- 12 Related parties
- 13 Fee to the auditors appointed by the Company in general meeting

Financial statements for the period 1 July 2015 - 30 June 2016

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 July 2014	37,264	8,471,086	8,508,350
Profit/loss for the year	0	47,843	47,843
Equity at 1 July 2015	37,264	8,518,929	8,556,193
Profit/loss for the year	0	35,906	35,906
Contribution from group	0	410,600	410,600
Equity at 30 June 2016	37,264	8,965,435	9,002,699

The share capital consists of 37,263,946 shares of DKK 1 each. The shares have not been divided into classes. There have been no changes to share capital in the past 5 financial years.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

1 Accounting policies

The annual report of Microsoft Development Center Copenhagen ApS for 2015/16 has been prepared in accordance with the provisions applying to large reporting class C enterprises under the Danish Financial Statements Act.

The accounting policies applied by the Company are consistent with those of last year.

Omission to present 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.

Recognition and measurement in general

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.

Reporting currency

The financial statements are presented in Danish kroner.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date, are 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.

Income statement

Revenue

Revenue consists of intra-group commissions equivalent to costs held plus a mark-up. The Company does not display segment breakdown of revenue, as there is only one type of sales within one geographic market.

Revenue is measured at fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

1 Accounting policies (continued)

Production costs

Research and development are performed on behalf of Microsoft Corporation and, consequently related costs are classified as production costs. Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the production process are likewise recorded under production cost.

Research and development costs are reimbursed by Microsoft Corporation.

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.

Administrative expenses

Administrative expenses comprise expenses incurred for the Company's administrative junctions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Company

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.

Tax

The Company is covered by the Danish rules on compulsory joint taxation of the Microsoft Group's Danish subsidiaries.

The Company is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

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.

Tax for the year comprises current tax, joint taxation contributions for the year and changes in deferred tax for the year – due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Intangible assets

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.

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the time when it is ready to be put into operation.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets: A useful life of three to five years is applied to other fixtures and fittings, tools and equipment. Computers (excl. servers) are fully depreciated in the month of acquisition. Leasehold improvements are depreciated on a straight-line basis 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.

Other securities and investments

Financial assets comprise of loan to group entities as well as other loans which are due more than a year. Financial assets are measured at amortised cost.

Impairment of non-current assets

Every year, intangible assets and property, plant and equipment are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying 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.

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.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash at hand and in bank

Cash comprises cash in hand and bank deposits.

Corporation tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carryforwards, 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 in accordance with 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.

As management company for all the entities in the joint taxation arrangement, the parent is liable for the subsidiaries' income taxes vis-à-vis the tax authorities as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable or receivables are recognised in the balance sheet as income tax receivable or payable.

Liabilities

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

Financial ratios

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 in the survey of financial highlights have been calculated as follows:

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

DKK'000	2015/16	2014/15
2 Staff costs		
Wages/salaries	277,844	305,928
Pensions	20,532	21,066
Other social security costs	626	638
	<u>299,002</u>	<u>327,632</u>

Staff costs are recognised as follows in the financial statements:

Production	263,492	296,371
Distribution	7,527	8,725
Administration	27,983	22,536
	<u>299,002</u>	<u>327,632</u>

Average number of full-time employees	<u>292</u>	<u>316</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.

DKK'000	2015/16	2014/15
3 Financial income		
Interest receivable, group entities	5,080	15,933
Exchange gain	13	0
Other financial income	40	0
	<u>5,133</u>	<u>15,933</u>
4 Tax for the year		
Estimated tax charge for the year	10,269	9,998
Deferred tax adjustments in the year	-1,549	512
Tax adjustments, prior years	0	2,507
	<u>8,720</u>	<u>13,017</u>

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

5 Intangible assets	
DKK'000	<u>Goodwill</u>
Cost at 1 July 2015	5,980
Disposals in the year	<u>-5,980</u>
Cost at 30 June 2016	0
Impairment losses and amortisation at 1 July 2015	3,588
Impairment losses in the year	2,392
Reversal of amortisation/depreciation and impairment of disposals	<u>-5,980</u>
Impairment losses and amortisation at 30 June 2016	0
Carrying amount at 30 June 2016	<u>0</u>

6 Property, plant and equipment				
DKK'000	<u>Other fixtures and fittings, tools and equipment</u>	<u>Leasehold improvements</u>	<u>Property, plant and equipment in progress</u>	<u>Total</u>
Cost at 1 July 2015	72,114	20,329	5,062	97,505
Additions in the year	14,064	21,019	605	35,688
Disposals in the year	-17,872	-8,253	0	-26,125
Transfer from other accounts	0	5,667	-5,667	0
Cost at 30 June 2016	<u>68,306</u>	<u>38,762</u>	<u>0</u>	<u>107,068</u>
Impairment losses and depreciation at 1 July 2015	64,752	18,705	0	83,457
Amortisation/depreciation in the year	6,499	2,010	0	8,509
Reversal of amortisation/depreciation and impairment of disposals	-16,282	-6,564	0	-22,846
Transferred	<u>-262</u>	<u>262</u>	<u>0</u>	<u>0</u>
Impairment losses and depreciation at 30 June 2016	<u>54,707</u>	<u>14,413</u>	<u>0</u>	<u>69,120</u>
Carrying amount at 30 June 2016	<u>13,599</u>	<u>24,349</u>	<u>0</u>	<u>37,948</u>

7 Investments	
DKK'000	<u>Receivables from group entities</u>
Cost at 1 July 2015	4,761,442
Disposals in the year	<u>-13,457</u>
Cost at 30 June 2016	4,747,985
Carrying amount at 30 June 2016	<u>4,747,985</u>

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

8 Receivables

In connection with the current tax cases, the Company has made a deposit with the Central Tax Administration (SKAT). The Company expects that the outcome of these tax cases will be in favour of the Company and that the deposit will therefore be repaid.

9 Deferred tax

Deferred tax relates to:

DKK'000	2015/16	2014/15
Intangible assets	376	37
Property, plant and equipment	3,967	2,846
Liabilities	89	0
	<u>4,432</u>	<u>2,883</u>

10 Collateral

A bank guarantee amounting to DKK 8,578 thousand has been pledged as security for the Company's future payments of rent costs.

11 Contractual obligations and contingencies, etc.

Other contingent liabilities

Microsoft Development Center Copenhagen ApS is a party in certain disputes in which the final financial outcome is uncertain. If the pending disputes result in considerable payments for the Entity, the parent company will refund the payments so that the financial position of the Entity will not be affected by the payments. Therefore, Management's assessment is that the final settlements will not have a significant influence on the financial position of the Entity.

As management company, the company is jointly taxed with the Microsoft groups' Danish companies. As the administrative company, together with the other Danish Microsoft company, the Company 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 2016, the net taxes payable to SKAT by the companies included in the joint taxation amounted to DKK 106,218 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.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2015/16	2014/15
Rent and lease liabilities	<u>173,012</u>	<u>193,186</u>

Microsoft Denmark ApS and Microsoft Development Center Copenhagen ApS have entered into a joint contract to lease a new 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 310 million as of 30 June 2016. Microsoft Development Center Copenhagen ApS is expected to pay 55% of the rent commitment.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes to the financial statements

12 Related parties

Microsoft Development Center Copenhagen ApS' related parties comprise the following:

Parties exercising control

<u>Related party</u>	<u>Domicile</u>	<u>Basis for control</u>
Microsoft Corporation	Redmond, WA, USA	Participating interest

Information about consolidated financial statements

<u>Parent</u>	<u>Domicile</u>	<u>Requisitioning of the parent's consolidated financial statements</u>
Microsoft Corporation	Redmond, WA, USA	www.microsoft.com

	<u>2015/16</u>	<u>2014/15</u>
DKK'000		
13 Fee to the auditors appointed by the Company in general meeting		
Fee regarding statutory audit	545	529
Other assistance	0	15
	<u>545</u>	<u>544</u>