

Microsoft Development Center Copenhagen ApS

Kanalvej 7, 2800 Kgs. Lyngby


CVR no. 76 24 72 18

Annual report

for the year 1 July 2016 - 30 June 2017

Approved at the annual general meeting of shareholders on 29/11-17

Chairman:



Tomas Haagen
Advokat
Gorrissen Federspiel
Advokatpartnerselskab
Axeltorv 2
1609 København V

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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Microsoft Development Center Copenhagen ApS for the financial year 1 July 2016 - 30 June 2017.

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 financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017.

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, 16 November 2017
Executive Board:



Charlotte Mark Christensen
CEO

Board of Directors:

Benjamin Owen Orndorff
Chairman

Keith Ranger Dolliver

Leigh Anne Kiviati

Statement by the Board of Directors and the Executive Board

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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 financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017.

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, 16 November 2017
Executive Board:

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Charlotte Mark Christensen
CEO

Board of Directors:

.....
Benjamin Owen Orndorff
Chairman

.....
Keith Ranger Dolliver

.....
Leigh Anne Kiviat

Independent auditor's report

To the shareholder of Microsoft Development Center Copenhagen ApS

Opinion

We have audited the financial statements of Microsoft Development Center Copenhagen ApS for the financial year 1 July 2016 - 30 June 2017, which comprise an income statement, balance sheet, statement of changes in equity and notes, including 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 financial position of the Company at 30 June 2017, and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities 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 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 in preparing the financial statements unless Management either intends to liquidate the Company 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- ▶ 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 Company'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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, 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's review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 16 November 2017

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56



Henrik Hjørt Kjelgaard
State Authorised Public Accountant



Kim Gerner Jacobsen
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 2016 - 30 June 2017
Website	www.microsoft.com/da-dk/mdcc
Telephone	+45 45 67 80 00
Board of Directors	Benjamin Owen Orndorff, Chairman Keith Ranger Dolliver Leigh Anne Kiviat
Executive Board	Charlotte Mark Christensen, CEO
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6, 2300 Copenhagen S

Management's review

Financial highlights

DKK'000	2016/17	2015/16	2014/15	2013/14	2012/13
Key figures					
Revenue	467,052	459,185	478,118	474,994	503,455
Gross margin	141,732	157,881	147,846	151,166	168,715
Operating profit/loss	47,328	40,001	46,513	44,903	53,288
Net financials	-287	4,625	14,347	10,419	29,270
Profit/loss for the year	34,231	35,906	47,843	45,326	69,777
Balance sheet					
Total assets	9,143,526	9,200,189	8,656,917	8,610,301	4,828,155
Investment in property, plant and equipment	36,403	35,688	9,674	4,923	6,556
Equity	9,036,930	9,002,699	8,556,193	8,508,350	4,716,964
Financial ratios					
Operating margin	10.1%	8.7%	9.7%	9.5%	10.6%
Gross margin	30.3%	34.4%	30.9%	31.8%	33.5%
Solvency ratio	98.8%	97.9%	98.8%	98.8%	97.7%
Return on equity	0.4%	0.4%	0.6%	0.7%	1.5%
Operational metrics					
Average number of employees	313	292	316	329	342

Management commentary

Business review

Microsoft Development Center Copenhagen ApS (MDCC) is one of Microsoft's strategic international development centers. MDCC creates business applications for the global market and in FY17 delivered the first releases of the new Microsoft Dynamics 365 solution that builds on previous Enterprise Resource Planning solutions Dynamics NAV, Dynamics C5 and Dynamics AX, as well as the Customer Relationship Management solution Dynamics CRM, all developed at MDCC. Microsoft is on a mission to help every person and every organization to achieve more. To that end we are seeking to reinvent personal productivity and business processes. Microsoft Dynamics 365 delivers on that mission by providing cloud-enabled apps for field service, sales, marketing, finance, operations, and talent, connecting business processes with the productivity tools in Office 365, so customers can improve their processes faster, with built-in insights and embedded intelligence. Microsoft Dynamics 365 is delivered in Business and Enterprise editions meeting the different needs of our customers.

In 2017, Microsoft acquired the company Xamarin, including their Danish-based development team in Aarhus. Xamarin creates automated application test tools and methodologies for software developers to be able to keep pace with the ever-growing number of mobile devices and ensure quality apps.

Management's review

Management commentary

Financial review

Microsoft Dynamics 365 and other Microsoft solutions are marketed through Microsoft worldwide subsidiaries, 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 for MDCC exclusively consists of intragroup sales that are directly linked to the cost level of the development center. As such, the development center's net turnover does not reflect market share or the turnover of individual products.

The result for the year was DKK 34 million compared to DKK 36 million last fiscal year. The result for the year is negatively impacted by adjustment to taxes in previous years. Adjusted for this, the result in 2016/17 shows an increase compared to the result in 2015/16. The result is described as satisfactory and in line with the expectations previously expressed

Non-financial matters

Knowledge resources

MDCC counts 313 employees. The majority of our employees are highly specialized software engineers recruited from Denmark and more than 45 countries across the world.

Engineering talent and diversity

MDCC is committed to raise the interest in IT and STEM (Science, Technology, Engineering, Mathematics capabilities) among young people, and girls in particular. Our aim is to strengthen IT-education in Denmark to make sure that we are prepared for a future workplace that requires more people with digital competencies, and increase the amount of young people choosing a career where they create solutions with IT.

Examples of activities include collaborations with Engineer the Future (ETF), Jet-Net.dk and others with events such as several school visits, TechTalks, student hackathons, Coding Pirates and DigiKidz. Particular focus has been on girls' activities as girls are underrepresented in most STEM fields. Events such as Girls Day in Science and collaboration with the DTU mentor program for girls in computer science, as well as with the Ministry of Equality in Denmark, are examples of outreach with the aim of presenting girls with role models, breaking stereotypes and inspiring girls with technology.

MDCC also 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. This is done through collaborations with DI Global Talent, Lyngby-Taarbæk City of Knowledge, Copenhagen Capacity, DEA and representation in the local press.

Charlotte Mark, Managing Director of MDCC, currently serves at the chair of Meetingplace, and is a member of the Board of Directors for DI Digital, Lyngby-Taarbæk City of Knowledge, American Chamber of Commerce in Denmark, DIS Study Abroad and Engineer the Future, as well as the Executive Committees for DI Global Talent and Jet-net.dk.

Management's review

Management commentary

Research and development activities

During FY17, Microsoft increased its commitment to research within quantum computing by investing in building an international team, including the hiring of physicist Charlie Marcus with the Niels Bohr Institute at Copenhagen University. We will create a team of researchers and engineers to create a scalable quantum computer through the pursuit of a topological qubit. Our research has reached an inflection point where we believe that creating a topological qubit is within reach and we are crossing the line where science meets engineering. The exponential increase in computing power provided by a scalable quantum machine could be transformative for Microsoft's cloud services and create new opportunities to potentially revolutionize industries such as medicine, biology, and materials science.

Statutory CSR report

Microsoft Development Center Copenhagen 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>

Account of the gender composition of Management

The company has a number of HR initiatives focusing on attracting and retaining female employees at leadership level: mentorships, networks and recruiting and particular focus on women at operational level also aims to increase the amount of women seeking leadership positions. Underrepresentation is mainly due to low numbers of female candidates in the field, as few women chose software engineering studies. In 2013, MDCC set forth a 4-year aspirational target of female representation (all-up and at managerial level) to reach 20% by 2017. Today 15,3% of employees at the company are women, with 15,1% at managerial level.

The Board of Directors comprises of three members, one of the members is a woman. The Company has therefore achieved a balance of gender with regards to the Board of Directors.

Events after the balance sheet date

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

Outlook

For the fiscal year 2017/18 Management expects unchanged revenue and profit before tax compared to 2016/17.

Financial statements 1 July 2016 - 30 June 2017

Income statement

Note	DKK'000	2016/17	2015/16
	Revenue	467,052	459,185
2	Production costs	-325,320	-301,304
	Gross margin	141,732	157,881
2	Distribution costs	-18,547	-13,031
2	Administrative expenses	-75,857	-104,849
	Operating profit	47,328	40,001
3	Financial income	0	5,133
4	Financial expenses	-287	-508
	Profit before tax	47,041	44,626
5	Tax for the year	-12,810	-8,720
	Profit for the year	34,231	35,906

Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	DKK'000	2016/17	2015/16
	ASSETS		
	Fixed assets		
6	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	14,741	13,599
	Leasehold improvements	21,900	24,349
	Prepayments for property, plant and equipment	24,292	0
		<u>60,933</u>	<u>37,948</u>
7	Investments		
	Receivables from group entities	4,643,276	4,747,985
		<u>4,643,276</u>	<u>4,747,985</u>
	Total fixed assets	<u>4,704,209</u>	<u>4,785,933</u>
	Non-fixed assets		
	Receivables		
	Receivables from group entities	100,486	128,595
9	Deferred tax assets	3,729	4,432
8	Income taxes receivable	4,286,583	4,248,380
	Other receivables	45,942	32,693
	Prepayments	2,480	84
		<u>4,439,220</u>	<u>4,414,184</u>
	Cash	97	72
	Total non-fixed assets	<u>4,439,317</u>	<u>4,414,256</u>
	TOTAL ASSETS	<u>9,143,526</u>	<u>9,200,189</u>

Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	DKK'000	2016/17	2015/16
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	37,264	37,264
	Retained earnings	8,999,666	8,965,435
	Total equity	9,036,930	9,002,699
	Provisions		
10	Other provisions	3,969	3,704
	Total provisions	3,969	3,704
	Liabilities		
	Current liabilities		
	Trade payables	8,076	13,825
	Payables to group entities	0	88,195
11	Other payables	94,551	91,766
		102,627	193,786
	Total liabilities other than provisions	102,627	193,786
	TOTAL EQUITY AND LIABILITIES	9,143,526	9,200,189

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

Financial statements 1 July 2016 - 30 June 2017

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 July 2015	37,264	8,518,929	8,556,193
16 Transfer, see "Appropriation of profit"	0	35,906	35,906
Contribution from group	0	410,600	410,600
Equity at 1 July 2016	37,264	8,965,435	9,002,699
16 Transfer, see "Appropriation of profit"	0	34,231	34,231
Equity at 30 June 2017	37,264	8,999,666	9,036,930

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 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies

The annual report of Microsoft Development Center Copenhagen ApS for 2016/17 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Changes in accounting policies

Effective 1 July 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

- Yearly reassessment of residual values of property, plant and equipment.

Starting 1 July 2016, residual values of property, plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions (The executive order on transitional provisions based in connection with the application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.) with future effect only as a change in accounting estimates with no impact on equity.

The change does not affect the income statement or the balance sheet for 2016/17 or the comparative figures.

Apart from the above change as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Minor changes have been made in comparative figures with no impact on the income statement or equity.

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.

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.

Reporting currency

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

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

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 functions, 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.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Balance sheet

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.

Residual values of property, plant and equipment are subject to annual reassessment.

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 fixed 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.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 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.

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.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Provisions

Provisions comprise anticipated expenses relating to restorations, etc. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date 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 at fair value if the obligation is expected to be settled far into the future.

Income taxes

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.

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

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.

Liabilities

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

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 under "Financial highlights" have been calculated as follows:

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

DKK'000	2016/17	2015/16
2 Staff costs and incentive programmes		
Wages/salaries	300,677	277,844
Pensions	23,824	20,532
Other social security costs	689	626
	<u>325,190</u>	<u>299,002</u>

Staff costs are recognised as follows in the financial statements:

Production	294,335	263,492
Distribution	8,272	7,527
Administration	22,583	27,983
	<u>325,190</u>	<u>299,002</u>
Average number of full-time employees	<u>313</u>	<u>292</u>

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 comprises stocks in the parent company. The Danish company does not pay for these rights.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

DKK'000		2016/17	2015/16	
3	Financial income			
	Interest receivable, group entities	0	5,080	
	Exchange gain	0	13	
	Other financial income	0	40	
		<u>0</u>	<u>5,133</u>	
4	Financial expenses			
	Interest expenses, group entities	50	0	
	Exchange adjustments	11	195	
	Other financial expenses	226	313	
		<u>287</u>	<u>508</u>	
5	Tax for the year			
	Estimated tax charge for the year	9,624	10,269	
	Deferred tax adjustments in the year	703	-1,549	
	Tax adjustments, prior years	2,483	0	
		<u>12,810</u>	<u>8,720</u>	
6	Property, plant and equipment			
DKK'000	Other fixtures and fittings, tools and equipment	Leasehold improvements	Prepayments for property, plant and equipment	Total
	<u>68,306</u>	<u>38,762</u>	<u>0</u>	<u>107,068</u>
	11,848	263	24,292	36,403
	<u>-41,347</u>	<u>-12,251</u>	<u>0</u>	<u>-53,598</u>
	<u>38,807</u>	<u>26,774</u>	<u>24,292</u>	<u>89,873</u>
	54,707	14,413	0	69,120
	10,693	2,712	0	13,405
	<u>-41,334</u>	<u>-12,251</u>	<u>0</u>	<u>-53,585</u>
	<u>24,066</u>	<u>4,874</u>	<u>0</u>	<u>28,940</u>
	<u>14,741</u>	<u>21,900</u>	<u>24,292</u>	<u>60,933</u>

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

7 Investments

DKK'000	Receivables from group entities
Cost at 1 July 2016	4,747,985
Disposals in the year	-104,709
Cost at 30 June 2017	4,643,276
Carrying amount at 30 June 2017	4,643,276

The Company is part of the Group's cash pool facility and has a right to utilize the credit facilities.

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.

The tax receivable comprise:

DKK 4,244,855 thousand paid deposits regarding current tax cases.

DKK 1,996 thousand relating to 2016/17 income taxes

DKK 39,732 thousand relating to 2015/16 income taxes

Part of the receivable, DKK 4,246,851 thousand, is expected to be received after 30 June 2018 and should therefore be considered a long-term receivable.

DKK'000	2016/17	2015/16
9 Deferred tax		
Deferred tax at 1 July	-4,432	-2,883
Adjustment of the deferred tax charge for the year	703	-1,549
Deferred tax at 30 June	-3,729	-4,432
Deferred tax relates to:		
Intangible assets	-188	-376
Property, plant and equipment	-3,316	-3,967
Provisions	-225	0
Liabilities	0	-89
	-3,729	-4,432
10 Other provisions		
Opening balance at 1 July	3,704	0
Provisions in the year	265	3,704
Other provisions at 30 June	3,969	3,704
The provisions are expected to be payable in:		
> 5 year	3,969	3,704
	3,969	3,704

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

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

DKK'000	2016/17	2015/16
11 Other payables		
Wages/salaries, salary taxes, social security contributions, etc.	37,372	35,667
Compensated absence commitment	50,595	49,470
Other accrued expenses	6,584	6,629
	94,551	91,766

12 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.

The Company is jointly taxed with the Microsoft groups' Danish companies. Together with the administrative 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 2017, the net taxes payable to SKAT by the companies included in the joint taxation amounted to DKK 48,860 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	2016/17	2015/16
Rent and lease liabilities	159,196	173,012

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 285 million as of 30 June 2017. Microsoft Development Center Copenhagen ApS is expected to pay 55% of the rent commitment.

13 Collateral

The Company has not provided any security or other collateral in assets at 30 June 2017.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

14 Related parties

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

Parties exercising control

Related party	Domicile	Basis for control
Microsoft Corporation	Redmond, WA, USA	Participating interest

Information about consolidated financial statements

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

Related party transactions

Microsoft Development Center Copenhagen ApS was engaged in the below related party transactions:

DKK'000	2016/17	2015/16
Commission income	467,052	459,185
Service fee (expenses)	1,236	232
Financial income	0	5,080
Financial expenses	50	0
Receivables from group entities - Long-term	4,643,276	4,747,985
Receivables from group entities - Short-term	100,486	128,595
Payables to group entities - Short-term	0	88,195
15 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	561	545
Other assistance	15	0
	<u>576</u>	<u>545</u>
16 Appropriation of profit		
Recommended appropriation of profit		
Retained earnings	34,231	35,906
	<u>34,231</u>	<u>35,906</u>