

Microsoft Development Center Copenhagen ApS

Kanalvej 7, 2800 Kgs. Lyngby

CVR no.76 24 72 18

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:

Cantal Pernille Patil

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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 ("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

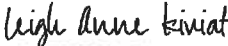
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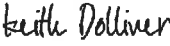
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Charlotte Mark Christensen
CEO

Board of Directors:

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Benjamin Owen Orndorff
Chairman

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Keith Ranger Dolliver

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Independent auditor's report

To the shareholders 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 2019 - 30 June 2020, which comprise of 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.

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

Basis for 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 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 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 as to 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.

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Independent auditor's report

To the shareholders of Microsoft Development Center Copenhagen ApS

Auditor's 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 judgment 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'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 in 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 the work we have performed, 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 Statements Act. We did not identify any material misstatement of the Management's review.

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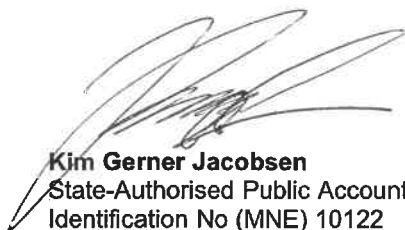
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Independent auditor's report


To the shareholders of Microsoft Development Center Copenhagen ApS

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

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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 2019 - 30 June 2020
Website	www.microsoft.com
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

Financial highlights

	2020	2019	2018	2017	2016
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	595,188	577,121	525,437	467,052	459,185
Operating profit (EBIT)	49,095	55,484	57,191	47,328	40,001
Net financials	(1,610)	(321)	(142)	(287)	4,625
Profit for the year	36,856	43,026	44,382	34,231	35,906
Total assets	9,292,418	9,241,824	9,221,490	9,143,526	9,200,189
Investment in property, plant and equipment	16,239	72,048	57,988	36,403	35,688
Equity	9,161,194	9,124,338	9,081,312	9,036,930	9,002,699

Microsoft Development Center Copenhagen ApS**6 of 24****MANAGEMENT'S REVIEW****Financial highlights (continued)**

	2020	2019	2018	2017	2016
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial ratios					
Operating margin	8.2%	9.6%	10.9%	10.1%	8.7%
Equity ratio	98.6%	98.7%	98.5%	98.8%	97.9%
Return on equity	0.4%	0.5%	0.5%	0.4%	0.4%
	2020	2019	2018	2017	2016
Average number of full-time employees	318	321	310	313	292

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

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MANAGEMENT'S REVIEW

Management commentary

Business review

Microsoft Development Center Copenhagen ApS is one of Microsoft's strategic international development centers. The center is charged with software development activities in areas such as Microsoft Dynamics 365 (business applications) and Visual Studio App Center (app tools and testing), as well as Quantum research activities.

Research and development activities

With Microsoft Dynamics 365 we bring together the power of the intelligent cloud and our CRM and ERP capabilities along with productivity applications to enable businesses to accelerate their digital transformation, increase their productivity and achieve more.

Our Visual Studio App Center enables full automatic testing of mobile apps on all conceivable models of Android and iOS devices and operating systems.

As part of Microsoft's investment in quantum computing, we are continuing to build on the international teams working on quantum research under the leadership of Scientific Directors Charlie Marcus and Peter Krogstrup and in collaboration with the University of Copenhagen as well as the Technical University in Denmark, DTU. Microsoft already offers the only full-stack, cloud ecosystem to enable quantum impact with worldwide partners and customers.

Financial review

Microsoft Dynamics 365 and other Microsoft solutions are marketed through Microsoft worldwide subsidiaries who work with an ecosystem of local and international partners that sell, customize and deploy the products to customers.

The net turnover for Microsoft Development Center Copenhagen ApS consists exclusively of intragroup sales; the turnover is linked to the costs incurred by the development center.

Profit after tax for the year was DKK36.86 million (2019: DKK43.03 million). The 14% decrease in result is aligned with expectations previously expressed and is attributable to the mark up changes in course of 2019/20 fiscal year.

Management assesses this result as satisfactory.

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MANAGEMENT'S REVIEW

Management commentary (continued)

Knowledge resources

Microsoft Development Center Copenhagen ApS had an average of 318 full time employees during the year (2019: 321). The majority of our employees are highly specialized software engineers and researchers recruited from Denmark and more than 50 countries across the world.

Engineering talent and diversity

Microsoft Development Center Copenhagen ApS is engaged in raising 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 not only use IT, but create solutions with IT.

Examples of activities include collaboration with Engineer the Future (ETF), TekTanken and others with events such as school projects, TechTalks, student hackathons 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 Digipippi to engage more girls in computer science, are examples of outreach with the aim of presenting girls with role models, breaking stereotypes and inspiring girls with technology.

Microsoft Development Center Copenhagen ApS also works actively on providing input to how Denmark can ensure attractive framework conditions for companies to attract and retain highly skilled IT professionals from all over the world. This is done through collaborations with DI Global Talent, Work in Denmark, Science City Lyngby and other partners.

Gender composition

Microsoft is dedicated to ensuring a diverse workforce, including a focus on gender equality.

Microsoft Development Center Copenhagen ApS has particular focus on the attraction and retention of female employees at managerial as well as operational level as women are underrepresented in those areas today, and has a number of initiatives focusing on attracting and retaining female employees including female targeted employer branding material, female networks, female targeted recruiting & mentorships, etc.

We have set an aspirational target for female recruitment of at least 20% to match the current percentage of women in the tech group of the overall Microsoft Corporation. Today 17.7% of employees at the company are women - up from 15.8% in the previous year, with 12% 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 Board of Directors.

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MANAGEMENT'S REVIEW

Management commentary (continued)

Statutory CSR report

Microsoft Development Center Copenhagen ApS aligns with the Microsoft Corporation Corporate and Social Responsibility (CSR) policy, which includes Human Rights, Climate / Environment, as well as a developed Sustainability report that covers the entire group.

Microsoft's Sustainability report can be found on
<https://www.microsoft.com/en-us/corporate-responsibility/reports-hub>

Events after the balance sheet date

No events have 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

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.

With company revenue being equivalent to costs plus mark-up, the revenue is anticipated to be on the same level or slightly decreased in 2020/2021 compared to 2019/2020. The same expectations continue for the profit before tax to be within 0-5% variance of the 2019/2020 fiscal year result. The trend, however, is dependent on the future investments (and therefore depreciation) to be made in the course of the 2020/2021 fiscal year.

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

Microsoft Development Center Copenhagen ApS**10 of 24****STATEMENT OF PROFIT OR LOSS**

	Note	30 June 2020 DKK'000	30 June 2019 DKK'000
Revenue	3	595,188	577,121
Production costs	2	(466,429)	(426,037)
Gross margin		128,759	151,084
Distribution costs	2	(2,614)	(8,524)
Administrative expenses	2	(77,050)	(87,076)
Operating profit		49,095	55,484
Profit before net financials		49,095	55,484
Financial income		0	14
Finance expenses	4	(1,610)	(335)
Profit before tax		47,485	55,163
Tax for the year	5	(10,629)	(12,137)
Profit for the year		36,856	43,026

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STATEMENT OF FINANCIAL POSITION

	Note	30 June 2020 DKK'000	30 June 2019 DKK'000
ASSETS			
Non-current assets			
<i>Property, plant and equipment</i>			
Other fixtures and fitting, tool and equipment	6	33,461	56,035
Property, plant and equipment under construction	6	3,680	272
Leasehold improvements	6	20,341	54,729
		<u>57,482</u>	<u>111,036</u>
<i>Other non-current assets</i>			
Other securities and investments	7	4,698,595	4,638,595
Deposits	7	212	212
Deferred tax assets	9	18,121	7,428
Income Tax receivable	8	4,242,863	4,246,871
		<u>8,959,791</u>	<u>8,893,106</u>
Total non-current assets		<u>9,017,273</u>	<u>9,004,142</u>
<i>Current Assets</i>			
Receivables from group entities		117,853	98,692
Other receivables		93,147	85,651
Prepayments		450	778
Income Tax receivable	8	63,695	52,464
		<u>275,145</u>	<u>237,585</u>
Cash		<u>0</u>	<u>97</u>
Total current assets		<u>275,145</u>	<u>237,682</u>
TOTAL ASSETS		<u>9,292,418</u>	<u>9,241,824</u>

Microsoft Development Center Copenhagen ApS**12 of 24****STATEMENT OF FINANCIAL POSITION (continued)**

	Note	30 June 2020 DKK'000	30 June 2019 DKK'000
Equity and liabilities			
Equity			
Share capital		37,264	37,264
Profit and loss account		9,123,930	9,087,074
Equity holders' share of equity		<u>9,161,194</u>	<u>9,124,338</u>
Total equity		<u>9,161,194</u>	<u>9,124,338</u>
Non-current liabilities			
Other provisions	10	<u>4,585</u>	<u>4,558</u>
Total non-current liabilities		<u>4,585</u>	<u>4,558</u>
Current liabilities			
Trade payables		11,647	8,800
Payables to group entities		248	0
Other payables	11	<u>114,744</u>	<u>104,128</u>
Total current liabilities		<u>126,639</u>	<u>112,928</u>
Total liabilities		<u>131,224</u>	<u>117,486</u>
Total equity and liabilities		<u>9,292,418</u>	<u>9,241,824</u>

Microsoft Development Center Copenhagen ApS**13 of 24****STATEMENT OF CHANGES IN EQUITY**

	Note	Share Capital DKK'000	Profit and loss account DKK'000	Total DKK'000
Equity at 1 July 2018		37,264	9,044,048	9,081,312
Transfer, see "Appropriation of profit"	16	0	43,026	43,026
Equity at 30 June 2019		<u>37,264</u>	<u>9,087,074</u>	<u>9,124,338</u>
Transfer, see "Appropriation of profit"	16	0	36,856	36,856
Equity at 30 June 2020		<u>37,264</u>	<u>9,123,930</u>	<u>9,161,194</u>

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.

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NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The annual report of Microsoft Development Center Copenhagen 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 (continued)****1.4 Foreign currency translation (continued)**

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 consists of intra-group commissions equivalent to costs plus a mark-up. 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.

(b) Production costs

Research and development is 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.

(c) Distribution costs

Distribution costs comprise of 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 of 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) 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.

Microsoft Development Center Copenhagen ApS**16 of 24****NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies (continued)****(f) 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.

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) 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.

(b) 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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****(c) Impairment of assets (continued)**

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.

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.

Microsoft Development Center Copenhagen ApS**18 of 24****NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies (continued)****(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".

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.

2. Staff costs and incentive plans

	2020 DKK'000	2019 DKK'000
Wages and salaries	323,409	326,012
Pensions	26,391	25,293
Other social security costs	2,344	717
	<u>352,144</u>	<u>352,022</u>

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

Production costs	340,048	335,969
Distribution costs	0	3,216
Administrative expenses	12,096	12,837
	<u>352,144</u>	<u>352,022</u>
Average number of full-time employees	<u>318</u>	<u>321</u>

By reference to section 98b (3), (ii), of the Danish Financial Statements Act, remuneration to management is not disclosed.

Microsoft Development Center Copenhagen ApS**19 of 24****NOTES TO THE FINANCIAL STATEMENTS****2. Staff costs and incentive plans (continued)****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.

3. Segment information

	2020 DKK'000	2019 DKK'000
Commission income	595,188	577,121
	<u>595,188</u>	<u>577,121</u>

4. Financial expenses

	2020 DKK'000	2019 DKK'000
Foreign exchange losses	19	0
Other interest expenses	1,591	335
	<u>1,610</u>	<u>335</u>

5. Tax for the year

	2020 DKK'000	2019 DKK'000
<i>Tax for the year</i>		
Estimated tax charge for the year	21,788	15,362
Adjustment of the deferred tax charge for the year	(10,693)	(3,225)
Tax adjustments, prior year	(466)	0
	<u>10,629</u>	<u>12,137</u>

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NOTES TO THE FINANCIAL STATEMENTS

6. Property, plant and equipment

	Other fixtures and fitting, tool and equipment DKK'000	Property, plant and equipment under construction DKK'000	Leasehold improvements DKK'000	Total
Cost at 1 July 2019	130,013	272	85,658	215,943
Additions	4,140	3,408	8,691	16,239
Transferred	8,981	0	(8,981)	0
Disposals	(2,865)	0	(341)	(3,206)
Cost at 30 June 2020	140,269	3,680	85,027	228,976
Depreciation and impairment losses at 1 July 2019	73,978	0	30,929	104,907
Depreciation	34,539	0	34,839	69,378
Disposals	(2,764)	0	(27)	(2,791)
Transferred	1,055	0	(1,055)	0
Depreciation and impairment losses at 30 June 2020	106,808	0	64,686	171,494
Carrying amount at 30 June 2020	33,461	3,680	20,341	57,482

7. Other securities and investments

	Receivables from group entities DKK'000	Deposits DKK'000	Total DKK'000
Cost at 1 July 2019	4,638,595	212	4,638,807
Additions in the year	60,000	0	60,000
Disposals in the year	0	0	0
Costs at 30 June 2020	4,698,595	212	4,698,807
Carrying amount at 30 June 2020	4,698,595	212	4,698,807

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

8. Income tax receivable

Microsoft Development Center Copenhagen ApS**21 of 24****NOTES TO THE FINANCIAL STATEMENTS****8. Income tax receivable (continued)**

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 4,250,256 thousand paid deposits regarding current tax cases

DKK 63,694 thousand relating to 2018/19 income taxes

DKK -7,393 thousand relating to 2019/20 income taxes

Part of the receivable DKK 4,242,863 thousand, is expected to be received after 30 June 2021 and is therefore considered a long-term receivable.

9. Deferred tax asset

	30 June 2020 DKK'000	30 June 2019 DKK'000
Deferred tax at 1 July	7,428	4,203
Adjustment of the deferred tax charge	10,693	3,225
Deferred tax at 30 June	18,121	7,428

The deferred tax charge relates to:

Property, plant and equipment	17,154	6,496
Provisions	1,009	1,003
Other taxable temporary differences	(42)	(71)
	18,121	7,428

Management considers it likely that there will be future taxable income against which tax deductions can be offset.

10. Other provisions

	30 June 2020 DKK'000	30 June 2019 DKK'000
Opening balance at 1 July	4,558	4,253
Provision for the year	319	305
Restoration release	(292)	0
Other provisions at 30 June	4,585	4,558

Other provisions are expected to mature within:

> 5 years	4,585	4,558
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Microsoft Development Center Copenhagen ApS**22 of 24****NOTES TO THE FINANCIAL STATEMENTS****10. Other provisions (continued)**

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

11. Other payables

	30 June 2020 DKK'000	30 June 2019 DKK'000
Payroll Liabilities	47,788	46,833
Compensated absence commitment	54,035	49,802
Other payables	12,921	7,493
	114,744	104,128

12. Contractual obligations and contingencies, etc.***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.

The Company is involved in certain disputes of which the final financial outcome is not yet certain. If the any of the 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 impacted. Therefore, Management's assessment is that a final settlement will not have a significant impact on the financial position of the Entity.

	30 June 2020 DKK'000	30 June 2019 DKK'000
<i>Other financial obligations</i>		
Rent and lease liabilities	111,489	125,974

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 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 2020

Microsoft Development Center Copenhagen ApS**23 of 24****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

Ultimate 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 in addition to remuneration of management.

	30 June 2020 DKK'000	30 June 2019 DKK'000
Commission income	595,188	577,121
Service fee income	411	370
Payables to subsidiaries	(248)	0
Receivables from group entities - Long-term	4,698,595	4,638,595
Receivables from group entities - Short-term	117,853	98,692

During the year office rent reimbursement transactions occurred between related parties. The amount of reimbursement income received by Microsoft Development Center Copenhagen ApS was DKK 341 thousand and the reimbursement expense was DKK 19,607 thousand. See note 12 for further details.

15. Fees paid to auditors appointed at the annual general meeting

	30 June 2020 DKK'000	30 June 2019 DKK'000
Fee for statutory audit	524	508
Total fee paid to Auditor	524	508

Microsoft Development Center Copenhagen ApS**24 of 24****NOTES TO THE FINANCIAL STATEMENTS****16. Appropriation of profit**

	30 June 2020 DKK'000	30 June 2019 DKK'000
<i>Recommended appropriation of profit</i>		
Profit and loss account	36,856	43,026
	<u>36,856</u>	<u>43,026</u>