

Registration number: 348353

Microsoft Round Island One

Annual Report and Financial Statements

for the Financial Year Ended 30 June 2020

Microsoft Round Island One

Company Information

Directors	Benjamin Orndorff (US) Keith Dolliver (US) Leigh Anne Kiviat (US)
Company secretary	Benjamin Orndorff
Registered number	348353
Registered office	70 Sir John Rogerson's Quay Dublin 2
Auditors	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2
Bankers	Citibank New York Branch 399 Park Avenue New York – 10043 USA
Solicitors	Matheson Solicitors 70 Sir John Rogerson's Quay Dublin 2

Microsoft Round Island One

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Microsoft Round Island One

Directors' Report for the Financial Year Ended 30 June 2020

The directors present their report and the audited financial statements for the financial year ended 30 June 2020.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of holding investments in group companies.

RESULTS FOR THE YEAR AND DIVIDENDS

The profit for the financial year, after taxation, amounted to \$314,734,930,000 (2019 - \$9,927,498,000).

The company paid dividends of \$24,575,574,000 during the financial year (2019 - \$43,413,971,000).

The company continues to adopt the disclosure exemptions allowed under FRS 101. Microsoft Round Island One's parent undertaking MBH Limited, was notified of and did not object to the use of the disclosure exemptions from EU adopted IFRS.

The company's key financial and other performance indicators during the year were as follows:

	2020	2019
	\$ 000	\$ 000
Turnover	13,608,801	9,873,320
Operating profit	13,604,141	9,840,623
Profit for the financial year	314,734,930	9,927,498
Shareholder's equity	308,869,217	18,709,861

Turnover increased by \$3.7bn due to an increase in income from investment in other group companies received during the financial year.

Operating profit increased from \$9.84bn in the prior financial year to \$13.60bn in the current financial year due to an increase in income from investment in other group companies. Profit after tax increased from \$9.93bn to \$314.73bn reflecting gains made upon the liquidation of two subsidiaries.

Shareholder's equity increased by \$290.16bn in line with the increase in profits during the financial year.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

In March 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local management teams in Microsoft continue to monitor the COVID-19 situation closely and to anticipate and react to the evolving circumstances. The financial impact of COVID-19 on the entity operations, solvency and liquidity has been evaluated by management and no significant consequences have been identified.

As the company is a holding company, it is dependent upon interest income and dividend income from fellow group undertakings to maintain profitability. The main risks that the company is exposed to are credit risk and liquidity risk.

Microsoft Round Island One

Directors' Report for the Financial Year Ended 30 June 2020 (continued)

Credit risk

The company's principal financial assets are intercompany receivables and investments. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. This risk is monitored on an ongoing basis.

Liquidity risk

Liquidity risk is the risk the company will encounter difficulty in meeting financial obligations due to the shortage of funds. The company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The company's objective is to maintain sufficient funds to be meet its contractual and financial obligations as they fall due. Management is of the view that the liquidity risk is minimal as the company is a participant in cash pooling arrangement with other related companies involving the transfer of excess funds to a cash pool and drawing on the cash pool for funding requirements.

ACCOUNTING RECORDS

The measures taken by the directors to ensure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records, are the engagement of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The company's accounting records are maintained at One Microsoft Place, South County Business Park, Leopardstown, Dublin 18.

DIRECTORS' AND SECRETARY'S INTEREST IN SHARES

The directors who served during the financial year were:

Benjamin Orndorff (US)
Leigh Anne Kiviat (US)
Keith Dolliver (US)

The directors of the company and its secretary, who held office at 30 June 2020, had no interests in the shares of the company at that date or at 1 July 2019.

The directors who held office at 30 June 2020 have advised that they hold some shares in the company's ultimate parent company, Microsoft Corporation, however none of the directors hold more than 1% of voting shares in Microsoft Corporation or in any of Microsoft's subsidiaries.

SUBSIDIARIES

A list of the principal subsidiaries at 30 June 2020 is set out in Note 12 to the financial statements.

Microsoft Round Island One

Directors' Report for the Financial Year Ended 30 June 2020 (continued)

GOING CONCERN

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern can be found in Note 2 of the financial statements.

FUTURE DEVELOPMENTS IN THE BUSINESS

It is the intention of the directors to continue to develop the activities of the company.

SUBSEQUENT EVENTS

Refer to Note 16 to the financial statements for details of material events occurring after the balance sheet date.

STATEMENT ON RELEVANT AUDIT INFORMATION

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

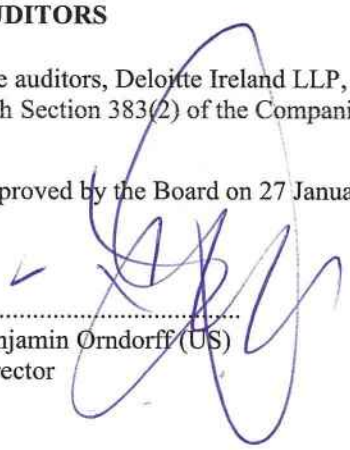
AUDIT COMMITTEE STATEMENT

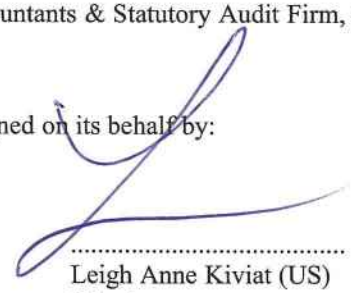
Following due review and consideration of the requirement under section 167 of the Companies Act 2014 and the current circumstances of the company, the board has taken the decision not to establish an audit committee at the present time. The reason for the decision is that Microsoft Corporation, the company's ultimate parent company, has established an audit committee which, in the Director's opinion, adequately performs the relevant functions for the Microsoft group as a whole, including the company, and that therefore, the Directors believe there is no necessity for the company itself to establish a committee for the purpose of section 167 of the Companies Act 2014.

AUDITORS

The auditors, Deloitte Ireland LLP, Chartered Accountants & Statutory Audit Firm, continue in office in accordance with Section 383(2) of the Companies Act 2014.

Approved by the Board on 27 January 2021 and signed on its behalf by:


.....
Benjamin Orndorff (US)
Director


.....
Leigh Anne Kiviat (US)
Director

Microsoft Round Island One

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS101 'Reduced Disclosure Framework' ("Relevant Financial Reporting Framework") issued by the Financial Reporting Council.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for that financial year and otherwise comply with the Companies Act 2014.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT ROUND ISLAND ONE

Report on the audit of the financial statements

Opinion on the financial statements of Microsoft Round Island One (the 'company')

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 30 June 2020 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Profit and Loss Account;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 18, including a summary of significant accounting policies as set out in note 2.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and FRS 101 "Reduced Disclosure Framework" issued by the Financial Reporting Council ("the relevant financial reporting framework").

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT ROUND ISLAND ONE

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (Ireland), 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting 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 conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 the auditor identifies during the audit.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT ROUND ISLAND ONE

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

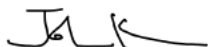
Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you *if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.*



John Kehoe

For and on behalf of Deloitte Ireland LLP

Chartered Accountants and Statutory Audit Firm

Full address: Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 27 January 2021

Microsoft Round Island One

Profit and Loss Account for the Financial Year Ended 30 June 2020

	Note	2020 \$ 000	2019 \$ 000
Turnover	5	13,608,801	9,873,320
Administrative expense		<u>(4,660)</u>	<u>(32,697)</u>
Operating profit		13,604,141	9,840,623
Interest receivable and similar income	6	7,118	9,770
Gain from sale of financial assets	7	-	77,105
Gain on liquidation of subsidiaries	7	<u>301,123,671</u>	<u>-</u>
Profit on ordinary activities before tax		<u>314,734,930</u>	<u>9,927,498</u>
Profit for the financial year		<u>314,734,930</u>	<u>9,927,498</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2020 or 2019 other than those included in the profit and loss account.

Microsoft Round Island One
(Registration number: 348353)
Balance Sheet as at 30 June 2020

	Note	2020 \$ 000	2019 \$ 000
Fixed assets			
Financial Assets	12	308,411,605	18,350,731
Current assets			
Debtors - due within one year	13	516,331	438,103
Cash at bank and in hand		<u>-</u>	<u>1</u>
		516,331	438,104
Creditors: Amounts falling due within one year			
Trade and other payables	14	<u>(58,719)</u>	<u>(78,974)</u>
Net current assets		<u>457,612</u>	<u>359,130</u>
Total assets less current liabilities		<u>308,869,217</u>	<u>18,709,861</u>
Capital and reserves			
Called-up share capital presented as equity	15	12	12
Capital redemption reserve		1	1
Profit and loss account		<u>308,869,204</u>	<u>18,709,848</u>
Shareholders' funds		<u>308,869,217</u>	<u>18,709,861</u>

Approved by the Board on 27 January 2021 and signed on its behalf by:

.....
Benjamin Orndorff (US)
Director

.....
Leigh Anne Kiviat (US)
Director

Microsoft Round Island One

Statement of Changes in Equity

Statement of Changes in Equity for the Financial Year Ended 30 June 2020

	Share capital \$ 000	Capital redemption reserve \$ 000	Profit and loss account \$ 000	Total \$000
At 1 July 2019	12	1	18,709,848	18,709,861
Profit for the financial year	<u>-</u>	<u>-</u>	<u>314,734,930</u>	<u>314,734,930</u>
Total comprehensive income for the financial year	-	-	314,734,930	314,734,930
Dividends: Equity capital (Note 11)	<u>-</u>	<u>-</u>	<u>(24,575,574)</u>	<u>(24,575,574)</u>
At 30 June 2020	<u><u>12</u></u>	<u><u>1</u></u>	<u><u>308,869,204</u></u>	<u><u>308,869,217</u></u>

Included in retained earnings in the current financial year is an amount totalling \$301,838,917,000 (2019 - \$715,246,000) which is unrealised and therefore does not form part of the company's distributable reserves.

Microsoft Round Island One

Statement of Changes in Equity

Statement of Changes in Equity for the Financial Year Ended 30 June 2019

	Share capital \$ 000	Share premium account \$ 000	Capital redemption reserve \$ 000	Other reserves \$ 000	Profit and loss account \$ 000	Total \$000
At 1 July 2018	12	7,910,757	1	18,667,513	25,618,051	52,196,334
Profit for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,927,498</u>	<u>9,927,498</u>
Total comprehensive income for the financial year	-	-	-	-	9,927,498	9,927,498
Dividends:Equity capital (Note 11)	-	-	-	-	(43,413,971)	(43,413,971)
Issue of share capital (Note15)	18,667,513	-	-	(18,667,513)	-	-
Conversion of share premium to retained earnings	<u>(18,667,513)</u>	<u>(7,910,757)</u>	<u>-</u>	<u>-</u>	<u>26,578,270</u>	<u>-</u>
At 30 June 2019	<u>12</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>18,709,848</u>	<u>18,709,861</u>

(i) During the previous financial year in accordance with section 1252 of the Companies Act 2014, the directors resolved to convert reserves of \$26.6m into profits available for distribution.

The notes on pages 12 to 24 form an integral part of these financial statements.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

1 GENERAL INFORMATION

Microsoft Round Island One is a private unlimited company incorporated in Ireland under the Companies Act 2014. The address of the registered office is given in the company information page. The nature of the company's operations and its principal activities are set out in the directors' report on pages 1 to 3. These financial statements are presented in US Dollar because that is the currency of the primary economic environment in which the company operates (its functional currency). These financial statements are separate financial statements. The company is exempt from the preparation of consolidated financial statements by virtue of section 300 of the Companies Act 2014, because it is included in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation can be obtained as set out in Note 17.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the Companies Act 2014 and Financial Reporting Standard 101 'Reduced Disclosure Framework' issued by the Financial Reporting Council.

The company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council.

SUMMARY OF DISCLOSURE EXEMPTIONS

As permitted by FRS 101 Reduced Disclosure Framework, the company has taken advantage of the disclosure exemptions available under that standard in relation to revenue from contracts with customers, business combinations, share-based payment, fair value measurements, capital management, presentation of comparative information in respect of certain assets, financial instruments, presentation of a cash-flow statement, reasonably estimable information relevant to assessing the possible impact of standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in Note 17.

CHANGES IN ACCOUNTING POLICY

None of the standards, interpretations and amendments effective for the first time from 1 July 2019 have had a material effect on the financial statements.

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

INTEREST RECEIVABLE AND PAYABLE

All interest income is taken to the profit and loss account on a day to day basis and all interest payable is charged to the profit and loss account on a day to day basis.

FOREIGN CURRENCIES

The financial statements are presented in US Dollar, which is the currency of the primary economic environment in which the company operates (its functional currency). Transactions in currencies other than the company's functional currency are translated at the rate of exchange ruling at the date of the transactions. The resulting monetary assets and liabilities are translated at the balance sheet rate. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiary undertakings and associates are carried at cost less provisions for any impairment. Where an investment is contributed by way of capital contribution or non-cash dividend then consideration is measured at fair value.

DIVIDENDS

Dividends from subsidiary undertakings are recognised in the profit and loss account in the financial year in which they are received. Dividends payable are recognised once appropriate approvals or payments have been made.

GOING CONCERN

The financial statements have been prepared on a going concern basis.

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Director's report on pages 1 - 3.

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future.

The directors, having assessed the responses of the directors of the company's parent, Microsoft Corporation, to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Microsoft Corporation, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

Initial recognition and measurement

Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the company commits to purchase or sell the asset.

Financial Liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement

Financial Assets

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the company. The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The company's financial assets at amortised cost includes trade receivables, and balances with other group companies.

Financial assets at fair value through OCI (debt instruments)

The company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at amortised cost.

Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages under IFRS 9's general approach. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the company applies the simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision methodology that is based on company's historical credit loss experience adjusted following an assessment of both current and forward-looking factors specific to the debtors and the economic and political environment, as obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate.

The company considers a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Microsoft Round Island One for the financial year ended 30 June 2020 were authorised for issue by the board of directors on 27 January 2021. The address of the registered office is given on the company Information page. The nature of the company's operations and its principal activities are set out in the directors' report on pages 1 - 3.

These financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

These financial statements are presented in USD because that is the currency of the primary economic environment in which the company operates.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only that financial year or in the financial year of the revision and future financial years if the revision affects both current and future financial years.

Impairment of investments in subsidiaries

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet was \$308,408,722,000 (2019: \$18,347,848,000) as outlined in Note 12 with no impairment loss recognised in 2020 or 2019.

Provision for expected credit losses

The company has considered the requirement to provide for expected credit losses in respect of receivables from other group companies. The company considers that the probability of default on such balances is very low and as such any related provision would be immaterial to the financial statements. The determination that the probability of default is very low is considered a significant judgement.

5 TURNOVER

	2020 \$ 000	2019 \$ 000
Income from investments in group companies	<u>13,608,801</u>	<u>9,873,320</u>

6 INTEREST RECEIVABLE & SIMILAR INCOME

	2020 \$ 000	2019 \$ 000
Interest on intra-group receivables	<u>7,118</u>	<u>9,770</u>

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

7 PROFIT FOR THE FINANCIAL YEAR

Profit for the financial year has been arrived at after charging/(crediting):

	2020	2019
	\$ 000	\$ 000
Net foreign exchange losses/(gains)	102	(128)
Foreign taxes paid	-	30,605
Gain from sale of financial assets (Note 12)	-	(77,105)
Gain on liquidation of subsidiaries (Note 12)	<u>(301,123,671)</u>	<u>-</u>

8 AUDITORS' REMUNERATION

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2020	2019
	\$ 000	\$ 000
Audit of the financial statements	63	63
Other fees to auditors		
All other tax advisory services	-	-
All other assurance services	-	-
All other non-audit services	-	-
	<u>63</u>	<u>63</u>

9 STAFF COSTS

The company has no employees other than the directors. Directors' remuneration is borne by a fellow group company.

10 TAXATION

As the company is tax resident in Bermuda, no tax is chargeable on income.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

11 DIVIDENDS

	2020	2019
	\$ 000	\$ 000
Distributions paid to owners \$2,040.65 per share (2019: \$3,604.91 per share)	<u>24,575,574</u>	<u>43,413,971</u>

12 FINANCIAL ASSETS

	Shares in subsidiary companies \$ 000	Shares in associates \$ 000	Total \$ 000
Cost or valuation			
At 1 July 2019	18,347,848	2,883	18,350,731
Additions	314,002,700	-	314,002,700
Disposals	<u>(23,941,826)</u>	<u>-</u>	<u>(23,941,826)</u>
At 30 June 2020	<u>308,408,722</u>	<u>2,883</u>	<u>308,411,605</u>
Net book value			
At 30 June 2020	<u>308,408,722</u>	<u>2,883</u>	<u>308,411,605</u>
At 30 June 2019	<u>18,347,848</u>	<u>2,883</u>	<u>18,350,731</u>

During the financial year two subsidiaries of the company, Microsoft Luxembourg USA Mobile SARL and MACS Holdings Limited, completed a liquidation process whereby Microsoft Round Island One received the subsidiaries' surplus and their remaining assets at the date of liquidation. These assets received by Microsoft Round Island One included 99.97% interest in Microsoft Ireland Research, 100% interest in Compton Acquisition Corp., 100% interest in 101288794 Saskatchewan Ltd., 100% in Microsoft Mobily Oy and 100% interest in MSFT C-O Holdings Coöperatif U.A.

The impact on the company of the write off of its share in Microsoft Luxembourg USA Mobile SARL and MACS Holdings Limited was a decrease in the carrying value of investments in subsidiaries of \$12.97bn and the recognition of the new interests was an increase in the value of financial assets of \$314.08bn. The net impact on the income statement from the receipt of assets was \$301.12bn

During the current financial year the company distributed the shares held in MSFT C-O Holdings Coöperatif U.A. by way of dividend.

Microsoft Ireland Research made a return of capital of \$10bn to the company during the financial year.

The investments in subsidiaries and associates are all stated at cost less allowance for impairment.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

12 FINANCIAL ASSETS (continued)

Subsidiaries:

Details of the subsidiaries as at 30 June 2020 are as follows:

Name of subsidiary	Country of incorporation	Details of investment	Proportion held	Principal activity
Microsoft Ireland Research	Ireland	5,000,000 ordinary shares of \$1 each 100 class A ordinary shares of \$1 each	100%	Software Development and Localisation Service
Microsoft Global Finance	Ireland	10 ordinary shares of US\$1 each	90%	Investment Trading and Treasury Management
Microsoft Financing International B.V.	Netherlands	18,000 ordinary shares of €1 each	100%	Trading and Treasury Management
Skype	Ireland	3,833,681 ordinary shares of €1 each	100%	Dormant Company
Skype Ireland Technologies Holdings	Ireland	6,341,333 ordinary shares of €1 each	100%	Holding Company
Microsoft Payments	Ireland	99 ordinary shares of US\$1 each	99%	Payment Service Provider
MFM Holdings	Bermuda	1,000 common shares of US\$1 each	100%	Holding Company
Skype Global SARL	Luxembourg	50,000 shares of US\$1 each	100%	Holding Company
Compton Acquisition Corp	Canada	1,000 ordinary shares of \$Nil each	100%	Holding company
101288794 Saskatchewan Ltd	Canada	1,000 class A ordinary shares of \$Nil each	100%	Holding company
Microsoft Mobile Oy	Finland	2500 shares of €1 each (A: 2000, B: 500)	100%	Holding company

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

12 FINANCIAL ASSETS (continued)

Associates

The company has availed of the exemption in Section 315 of the Companies Act 2014 not to disclose the net assets and profit/loss of its undertakings in which it holds more than 20%.

Details of the associates as at 30 June 2020 are as follows:

Name of associate	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2020	2019
Microsoft Informatica Ltda	Sales Intermediary	Brazil	21%	21%

13 DEBTORS

	2020 \$ 000	2019 \$ 000
Amounts falling due within one year:		
Amounts owed by group undertakings	<u>516,331</u>	<u>438,103</u>
	<u>516,331</u>	<u>438,103</u>

Amounts owed by group undertakings are classified as financial assets at amortised cost and are therefore measured at amortised cost. These amounts are repayable on demand, are unsecured and bear interest at a rate equivalent to the US Federal Reserve short term deposit rate.

The directors consider that the carrying value of debtors approximates fair value.

14 TRADE AND OTHER PAYABLES

	2020 \$ 000	2019 \$ 000
Amounts falling due within one year:		
Amounts owed to group undertakings	58,719	58,719
Foreign taxes	-	20,255
	<u>58,719</u>	<u>78,974</u>

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

14 TRADE AND OTHER PAYABLES (continued)

Amounts owed to group undertakings are repayable on demand, are unsecured and bear no interest.

The directors consider that the carrying value of trade and other payables approximates fair value.

15 CALLED UP SHARE CAPITAL PRESENTED AS EQUITY

Authorised shares

	No. 000	2020 \$ 000	No. 000	2019 \$ 000
Ordinary shares of \$0.001 (2019 - \$0.001) each	20,000,000,000	20,000,000	20,000,000,000	20,000,000
"A" ordinary shares of \$0.001 (2019 - \$0.001) each	100	-	100	-
	<u>20,000,000,100</u>	<u>20,000,000</u>	<u>20,000,000,100</u>	<u>20,000,000</u>

Allotted, called-up and fully paid shares

	No.	2020 \$	No.	2019 \$
Ordinary shares of \$0.001 each	11,951,920	11,952	11,951,920	11,952
"A" ordinary shares of \$0.001 each	91,091	91	91,091	91
	<u>12,043,011</u>	<u>12,043</u>	<u>12,043,011</u>	<u>12,043</u>
Called-up share capital presented as equity		<u>12,043</u>		<u>12,043</u>
Called-up share capital presented as a liability		<u>-</u>		<u>-</u>

During the prior financial year the company increased the authorised share capital by 19,999,000,000,000 ordinary shares of US\$0.001 each.

During the prior financial year, due to an reorganisation of the entity's capital reserves, the company capitalised reserves of \$18,667,513,000 by issuing 18,667,513,000,000 ordinary shares of \$0.001 each and subsequently cancelled them by converting the amounts into profits available for distribution.

Microsoft Round Island One

Notes to the Financial Statements for the Financial Year Ended 30 June 2020 (continued)

15 CALLED UP SHARE CAPITAL PRESENTED AS EQUITY (continued)

The company has two classes of shares:

- (i) Ordinary Shares with a par value of US\$0.001 each; and
- (ii) "A" Ordinary Shares with a par value of US\$0.001 each. Neither class of share carries a right to a fixed income.

Holders of both the Ordinary Shares and the "A" Ordinary Shares have the right to vote at general meetings of the company.

Holders of both the Ordinary Shares and the "A" Ordinary Shares have the right to receive dividends declared and paid by the company. Dividends (including interim dividends) may however be declared and paid on one class of shares only to the exclusion of the other class, and a greater dividend may be declared and paid on one class of shares than on any other class.

On a return of assets on liquidation or otherwise the assets of the company available for distribution among the members shall be applied first in repaying to the holders of the Ordinary Shares the amounts paid up or credited as paid up on such shares, and second in repaying to the holders of the "A" Ordinary Shares the amounts paid up or credited as paid up on such shares. The balance of such assets shall belong to and be distributed equally among the holders of the Ordinary Shares only according to the amounts paid up or credited as paid up on such shares.

16 SUBSEQUENT EVENTS

Subsequent to year end the company declared a dividend of \$30.5 billion. No other subsequent events have occurred since the financial period end that materially impact the financial statements for the financial period ended 30 June 2020.

17 ULTIMATE PARENT UNDERTAKING AND PARENT UNDERTAKINGS OF LARGER GROUPS

The company's ultimate parent undertaking and controlling party is Microsoft Corporation, incorporated in the United States of America. The largest and smallest group in which the results of the company are consolidated is that headed by Microsoft Corporation. The consolidated financial statements of Microsoft Corporation are available at One Microsoft Way, Redmond, Washington 98052-6399.

The company's immediate parent undertaking is MBH Limited, an entity incorporated in Bermuda.

18 APPROVAL OF FINANCIAL STATEMENTS

The board of directors approved these financial statements for issue on 27 January 2021.