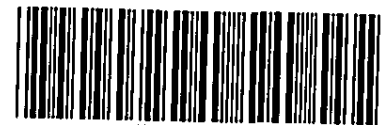


MICROSOFT LIMITED

Report and Financial Statements

52 weeks ended 29 June 2007

THURSDAY



LL7ZW0W4

LD5

26/06/2008

38

COMPANIES HOUSE

REPORT AND FINANCIAL STATEMENTS 2007

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	6
Statement of recognised gains and losses	6
Balance sheet	7
Notes to the accounts	8

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A J Baker (resigned 31 July 2006)
K R Dolliver
B O Orndorff
G R Frazer (appointed 31 July 2006)

SECRETARY

R B Secretarial Limited

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

National Westminster Bank Plc
12 The High Street
Windsor
Berkshire
SL4 1LQ

Citibank, N A
PO Box 449
Riverdale House
Molesworth Street
London
SE13 7EU

SOLICITORS

Linklaters & Paines
One Silk Street
London
EC2Y 8HQ

The Law Offices of Marcus J O'Leary
Centennial Court
Easthampstead Road
Bracknell
Berkshire RG12 1YQ

Reed Smith Richards Butler LLP
Beaufort House
15 St Botolph Street
London
EC3A 7EE

Osborne Clark
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1AX

AUDITORS

Deloitte & Touche LLP
Chartered Accountants

TAX ADVISERS

KPMG LLP
Arlington Business Park
Theale

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 29 June 2007

ACTIVITIES

Microsoft Limited, a subsidiary of Microsoft Corporation, continues to market and support systems and applications software for business, professional and home use, including operating systems, network products, languages and applications as well as books, hardware and CD-ROM products for the microcomputer market place

The principal area of business activity is the United Kingdom

BUSINESS REVIEW

The primary purpose of the company is to provide marketing and support to other group companies. The majority of turnover is therefore made up of commissions, based on costs incurred in the marketing and support of systems and applications software for business, professional and home use. In the current year turnover from other group companies grew from £417m to £483m, the main driver behind the increased revenue during the year was an increase in demand for market and support services which is supported by the growth in employee numbers, heads increased by 15% and the turnover grew proportionate to this increase. We anticipate these revenue streams continuing to be the primary source of growth next year. The key performance indicator for the company is therefore based on return on employee investment as this is the main contributor to costs. The company is committed to ensuring all employees are focused on the overall group strategy, and as such employee involvement is a key focus for the company, refer to "Employee involvement" paragraph below.

Revenue is also generated from the Services business through its Managed Support and Consulting divisions. The Managed Support business provides on site technical experts to enhance the performance of customer's investment in Microsoft's technology. The Consulting division works with customers and partners to deliver best in class, leading edge solutions to support the adoption and acceleration of Microsoft products. This represents the sales to third parties of £72m, the level of which has been consistent with the prior year and is expected to continue at this level in the following year.

DIVIDENDS

The directors approved payment of a dividend for the period of £20,000,000 (2006 £40,000,000)

RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies, in particular with regard to Microsoft Ireland Operations Limited as this is the major customer for Microsoft Ltd in the group. Their performance continues to be strong and there is not considered to be a significant risk to the company's continuing profitability and growth. The company is not considered to be at significant risk from environmental or other external influences. The company has no significant borrowings or foreign exchange exposure.

FUTURE PROSPECTS

At the end of the year the company continued to support other group companies, there is continual head count growth which is supporting a strong outlook for the following year.

DIRECTORS

The directors who served during the period are shown on page 1

CHARITABLE DONATIONS

During the period, the company made donations for charitable purposes which amounted to £258,213 (2006 £187,962). No political donations were made (2006 - £nil).

DIRECTORS' REPORT (CONTINUED)

EMPLOYEE INVOLVEMENT

The directors ensure that the employees are informed of any significant matters affecting them as employees. Employees are encouraged to discuss with management factors affecting the company, about which they are concerned.

The involvement of employees in business performance is encouraged through an employee share purchase plan. This scheme enables employees to purchase shares in Microsoft Corporation, the ultimate parent company, at 90% of their market value.

Suggestions from employees aimed at improving the company's performance are welcomed.

EMPLOYMENT OF DISABLED PERSONS

The company recognises its social and statutory duty to employ disabled persons. It is the company's policy to give full and fair consideration to applications for employment from disabled persons.

The company's general policy on training and promotion is to fit the qualifications and potential of each member of its staff to the appropriate job and career in the business. This policy is applied to disabled persons in the same way as to other staff.

Where employees become disabled, the company endeavours to continue to employ such people, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors. The company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board of Directors
and signed on behalf of the Board



G R Frazer
Director

23 June 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROSOFT LIMITED

We have audited the financial statements of Microsoft Limited for the 52 weeks ended 29 June 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 June 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom

24 June 2008

PROFIT AND LOSS ACCOUNT

Year ended 29 June 2007

	Note	52 weeks ended 29 June 2007 £'000	Restated* 52 weeks ended 30 June 2006 £'000
TURNOVER	2	555,622	489,666
Cost of sales		(41,431)	(41,485)
GROSS PROFIT		514,191	448,181
Distribution costs		(84,996)	(75,884)
Administrative expenses		(379,727)	(315,767)
OPERATING PROFIT	3	49,468	56,530
Amounts written off investments	11	-	(2,227)
Interest receivable and similar income	5	4,327	3,278
Interest payable and similar charges	6	(32)	(19)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		53,763	57,562
Tax on profit on ordinary activities	7	(16,812)	(15,755)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		36,951	41,807

* See note 9

All amounts derive from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 29 June 2007

	2007 £000	Restated (see note 9) 2006 £000
Profit for the financial year	36,951	41,807
Total recognised gains and losses relating to the year	36,951	41,807
Prior year adjustment (see note 9)	5 077	
Total recognised gains and losses since the last annual report	42,028	

MICROSOFT LIMITED

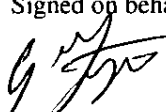
BALANCE SHEET 29 June 2007

	Note	29 June 2007 £'000	Restated* 30 June 2006 £'000
FIXED ASSETS			
Tangible assets	10	19,402	8,802
Investments	11	-	-
		<u>19,402</u>	<u>8,802</u>
CURRENT ASSETS			
Debtors	12	158,089	149,284
Cash at bank and in hand		51,218	24,297
		<u>209,307</u>	<u>173,581</u>
CREDITORS: amounts falling due within one year	13	(116,773)	(99,609)
NET CURRENT ASSETS		<u>92,534</u>	<u>73,972</u>
NET ASSETS		<u>111,936</u>	<u>82,774</u>
CAPITAL AND RESERVES			
Called up share capital	15	15	15
Profit and loss account		111,921	82,759
SHAREHOLDERS' FUNDS	16	<u>111,936</u>	<u>82,774</u>

* See note 9

These financial statements were approved by the Board of Directors on 23 June 2008

Signed on behalf of the Board of Directors



G R Frazer
Director

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. These have been consistently applied in both the current and preceding financial periods, with the exception of the policy for share based payments which is explained below.

Share based payments

The company has adopted FRS 20 'Share based payments' in these financial statements. The adoption of this standard represents a change in accounting policy. The company has applied the transitional provisions of FRS 20 in respect of equity-settled awards and has applied FRS 20 to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005. See note 9 for further details.

The Fair value of awards granted is spread over the vesting period of those awards. A corresponding amount is credited to reserves. Refer to note 18 for details of how the fair value of awards is determined.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

Under FRS1 "Cash flow statements" the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Consolidation

The Company has taken advantage of the exemption from preparing consolidated accounts permitted by S228 of the Companies Act 1985 because it is a wholly-owned subsidiary of Microsoft Corporation which prepares consolidated accounts that are publicly available. Hence the information provided in these financial statements presents information about the company as an individual undertaking and not as a group.

Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight line basis over their expected useful lives at the following rates:

Office equipment, furniture and fittings	33% per annum
Computer and technical equipment	33% to 100% per annum
Leasehold improvements	over the period of the lease

Residual value is calculated on prices prevailing at the date of acquisition.

Financial year

The financial year is the fifty two or fifty three week period ending on the Friday closest to 30 June.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Pension scheme

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred taxation is recognised without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value

Foreign currencies

Transactions in foreign currencies during the year are translated into sterling at the average rate ruling for the month of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. All exchange gains and losses are taken to the profit and loss account

2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the period. Turnover, all of which arises in the United Kingdom, is attributable to one activity, the marketing, distribution and support of systems and applications software. It includes commission receivable by the company under agreements with a fellow subsidiary

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Sales to third parties	72,494	71,914
Sales within the group	483,128	417,752
	<u>555,622</u>	<u>489,666</u>

3. OPERATING PROFIT

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Operating profit is stated after charging/(crediting):		
Rentals under operating leases		
Other operating leases	19,196	10,601
Depreciation – owned assets	8,322	7,511
Foreign exchange (gain) / loss	(248)	63
	<u> </u>	<u> </u>

The auditors' remuneration has been borne by another group company in both the current and prior periods

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 29 June 2007 No.	52 weeks ended 30 June 2006 No.
Average number of persons employed (including directors):		
Sales and distribution	2,282	1,990
Administration	78	68
	<u>2,360</u>	<u>2,058</u>
	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Staff costs (including directors):		
Wages and salaries	203,851	163,303
Social security costs	21,912	16,443
Pension	12,295	10,067
Share based payments (note 18)	12,211	10,891
	<u>250,269</u>	<u>200,704</u>

One director received remuneration and pension during the period (2006 – one) and this was as follows

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Salaries and Bonus	23	407
Pension	3	33
	<u>26</u>	<u>404</u>

The other directors receive their remuneration for services to group companies from Microsoft Corporation. The proportion of this remuneration that is allocated to their services to Microsoft Limited is £nil (2006 £nil).

The highest paid director received emoluments of £26,000 (2006 £404,000).

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Bank interest	871	1,171
Interest receivable from parent company	3,456	2,107
	<u>4,327</u>	<u>3,278</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Interest payable to group undertakings	32	19
	<u>32</u>	<u>19</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 29 June 2007 £'000	Restated (See note 9) 52 weeks ended 30 June 2006 £'000
United Kingdom corporation tax	16,091	18,028
Adjustment in respect of prior years	(460)	(750)
Total current tax	15,631	17,278
Deferred tax (note 14)	1,181	(1,523)
	<u>16,812</u>	<u>15,755</u>

Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	52 weeks ended 29 June 2007 %	52 weeks ended 30 June 2006 %
Corporation tax at standard rate	30	30
Depreciation in excess of capital allowances	-	1
Other short term timing differences	(1)	(4)
Prior year adjustment	(1)	(1)
Permanent adjustments	1	4
	<hr/>	<hr/>
Total current tax charge	29	30
	<hr/>	<hr/>

The standard rate of tax used in the above reconciliation is the average United Kingdom corporation tax rate for the period concerned as the vast majority of taxable income arises there

8. DIVIDENDS

	52 weeks ended 29 June 2007 £'000	52 weeks ended 30 June 2006 £'000
Paid – £1,333 per equity ordinary share (2006 – £2,667)	20,000	40,000
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

9. PRIOR YEAR ADJUSTMENT

The directors adopted FRS20 for the first time in preparing these financial statements. Under this accounting policy, the fair value of options over shares of Microsoft Corporation granted is calculated at the date the grant is made and is charged to the profit and loss account over the vesting period of the share options. The value of the grant is credited directly to reserves.

The comparative figures in the financial statements have been restated to reflect the adoption of this policy.

The effects of the change in policy are summarised below.

	52 Weeks ended 30 June 2006 £'000
Profit and loss account	
Increase in operating expenses	10,891
Decrease in tax on profit on ordinary activities	(1,832)
	<hr/>
Decrease in profit for the period	9,059
	<hr/>
Balance Sheet	
Increase in deferred tax asset	5,077
	<hr/>
Increase in shareholders' funds	5,077
	<hr/>

10. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 1 July 2006	24,387	25,827	3,873	54,087
Additions	14,974	3,948	-	18,922
Disposals	-	(35)	-	(35)
	<hr/>	<hr/>	<hr/>	<hr/>
At 29 June 2007	39,361	29,740	3,873	72,974
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 July 2006	21,105	21,431	2,749	45,285
Charge for the period	3,444	4,430	448	8,322
Disposals	-	(35)	-	(35)
	<hr/>	<hr/>	<hr/>	<hr/>
At 29 June 2007	24,549	25,826	3,197	53,572
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 29 June 2007	14,812	3,914	676	19,402
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2006	3,282	4,396	1,124	8,802
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

11. INVESTMENTS

The company has a wholly owned subsidiary, TDIC Limited, a company incorporated in Great Britain. TDIC Limited did not trade during the current period. The cost of the investment at 29 June 2007 was £610,000 (2006: £610,000), with Net Book Value £nil (2006: nil).

During the period ended 30 June 2006, the company purchased the trade and assets of Sybari Software Ltd for £2,249,000. Goodwill arising on acquisition, being the excess of the consideration paid over the underlying value of net assets acquired, totalled £2,227,000. This amount was fully written down in the prior year profit and loss account.

12. DEBTORS

	Restated (see note 9)	
	2007	2006
	£'000	£'000
Trade debtors	24,780	17,013
Amounts owed by fellow group undertakings	107,302	100,592
Corporation tax	4,818	1,945
Other debtors	5,248	5,522
Prepayments and accrued income	7,933	15,023
Deferred tax asset (note 14)	8,008	9,189
	<u>158,089</u>	<u>149,284</u>

Interest is received on amounts owed by group undertakings except short-term trading balances using a Reuter's 12-month interest rate.

13. CREDITORS . AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007	2006
	£'000	£'000
Trade creditors	8,610	4,579
Amounts owed to fellow subsidiary undertakings	-	3,203
Other creditors	858	471
Other taxation and social security	16,470	14,129
Accruals and deferred income	90,835	77,227
	<u>116,773</u>	<u>99,609</u>

Interest is paid on amounts owed to group undertakings except short-term trading balances using a Reuter's 12-month interest rate.

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2007

14. DEFERRED TAX

The deferred tax asset consists of the following amounts

	2007	Restated (see note 9)
	£'000	2006 £'000
Depreciation in excess of capital allowances	3,348	4,112
Share based payments	4,660	5,077
	<u>8,008</u>	<u>9,189</u>
		£'000
Balance at 1 July 2006 restated (see note 9)		9,189
Released to the profit and loss in the period		(1,181)
		<u>8,008</u>
Balance at 29 June 2007		<u>8,008</u>

15. CALLED UP SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised, called up, allotted and fully paid		
15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

NOTES TO THE ACCOUNTS

52 weeks ended 29 June 2007

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007 £'000	Restated – see note 9 2006 £'000
Profit for the financial period as previously stated	36,951	39,975
Prior year restatement (note 9)	-	(9,059)
Profit for the financial period restated	36,951	30,916
Dividends paid	(20,000)	(40,000)
Share-based payment – contribution received	12,211	10,891
Net addition to shareholders' funds	29,162	1,807
Opening shareholders' funds as previously stated	82,774	77,697
Prior year restatement (note 9)	-	3,245
Opening shareholders' funds as restated	82,774	80,942
Closing shareholders' funds	111,936	82,774

17. OPERATING LEASE COMMITMENTS

At 30 June 2007 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings	
	2007 £'000	2006 £'000
Operating leases which expire		
Within 1 year	-	218
Between 2 and 5 years inclusive	291	-
After 5 years	18,905	10,383
	19,196	10,601

NOTES TO THE ACCOUNTS**52 weeks ended 29 June 2007****18. SHARE BASED PAYMENTS**

The group has a share award scheme whereby employees are awarded shares in Microsoft Corporation. These shares vest equally on the first to fifth anniversary of the award date. The employees do not make any payment for these shares. Awards are forfeited if the employee leaves the group before the relevant anniversary date of those awards has been reached.

Details of the share awards outstanding during the year are as follows

	2007	2006
Number of share awards	2,506,092	2,131,873
Weighted average exercise price (in £)	-	-
Outstanding at beginning of period	2,131,873	1,523,092
Granted during the period	1,285,899	935,674
Forfeited during the period	(238,845)	(28,112)
Exercised during the period	(672,835)	(298,781)
Expired during the period	-	-
Outstanding at the end of the period	2,506,092	2,131,873
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ended 29 June 2007 was \$25.70 (period ended 30 June 2006: \$27.38).

The unvested awards as at 29 June 2007 had a weighted average remaining contractual life of 1.9 years.

In both the periods ended 29 June 2007 and 30 June 2006, awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £17,373,816 (2006: £14,244,116).

The fair values of awards granted is based upon the market price of the underlying share as of the date of the grant, reduced by the present value of estimated future dividends.

The company recognised total expenses of £10,465,000 and £8,026,000 related to share award transactions during 2007 and 2006 respectively.

Shared Performance Share Awards

The group has a Shared Performance Share Awards ("SPSA") scheme whereby employees are granted shares in Microsoft Corporation if the group meets specified performance targets. A quarter of each award vests each year between one and four years after the end of each performance measurement period.

The fair value of the SPSAs is measured as the market price of the underlying share as of the date of the grant, reduced by the present values of estimated future dividends.

The company recognised total expenses of £1,055,000 and £1,770,000 related to SPSA transactions during 2007 and 2006 respectively.

Legacy Share-based Payment Schemes

The company recognised a further £691,000 (2006: £1,095,000) relating to historic share option schemes. No new awards were made under these schemes during the current or preceding financial period.

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2007

19. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available on written request from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

20. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other group undertakings within, and investee related parties of, the Microsoft Corporation group have not been disclosed in these financial statements.