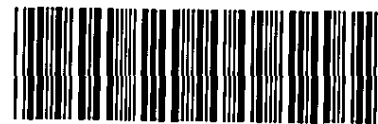


**MICROSOFT LIMITED**

**Report and Financial Statements**

**52 weeks ended 27 June 2008**

THURSDAY



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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2008**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2008**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

K R Dolliver  
B O Orndorff  
G R Frazer

#### **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 LLP  
Chartered Accountants  
Reading

#### **TAX ADVISERS**

KPMG LLP  
Arlington Business Park  
Theale  
RG7 4SD

# **MICROSOFT LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 52 weeks ended 27 June 2008.

### **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 comprises 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 derived from other group companies grew from £483m to £513m. Despite the economic conditions which prevailed at the close of the financial year, the demand for market and support services grew marginally. The key performance indicator for the group 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 £78m, the level of which has been similar to the prior year and is expected to continue at this level in the following year.

### **DIVIDENDS**

The directors did not declare a dividend for the period ended 27 June 2008 (2007: £20,000,000).

### **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. 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.

### **GOING CONCERN**

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a strong expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **FUTURE PROSPECTS**

The company will continue to support other group companies and in view of the current economic climate, the board is looking forward to sustaining the level of revenue and profits in the following years.

# **MICROSOFT LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **SUBSEQUENT EVENTS**

On 1 August 2008, the company announced an interim dividend of £50,000,000 for the period ended 3 July 2009.

### **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 £285,903 (2007: £258,213). No political donations were made (2007 - £nil)

### **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.

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.

# **MICROSOFT LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **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 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.

On 1 December 2008, Deloitte & Touche LLP changed their name to Deloitte LLP. Deloitte 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  
30 April 2009

## **MICROSOFT LIMITED**

### **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 27 June 2008 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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 27 June 2008 and of its profit for the period 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 LLP*

**Deloitte LLP**

Chartered Accountants and Registered Auditors  
Reading, United Kingdom

*30 April* 2009



# MICROSOFT LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 27 June 2008

	Note	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
<b>TURNOVER</b>	2	591,069	555,622
Cost of sales		(62,596)	(41,431)
<b>GROSS PROFIT</b>		528,473	514,191
Distribution costs		(81,143)	(84,996)
Administrative expenses		(378,006)	(379,727)
<b>OPERATING PROFIT</b>	3	69,324	49,468
Interest receivable and similar income	5	9,824	4,327
Interest payable and similar charges	6	(20)	(32)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		79,128	53,763
Tax on profit on ordinary activities	7	(24,966)	(16,812)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		54,162	36,951

All amounts derive from continuing operations.

There were no recognised gains or losses other than those shown in the profit and loss account above. Accordingly, no statement of total recognised gains and losses has been presented.

# MICROSOFT LIMITED

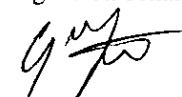
## BALANCE SHEET

27 June 2008

	Note	27 June 2008 £'000	29 June 2007 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	17,409	19,402
Investments	10	-	-
		<u>17,409</u>	<u>19,402</u>
<b>CURRENT ASSETS</b>			
Debtors	11	233,040	158,089
Cash at bank and in hand		51,735	51,218
		<u>284,775</u>	<u>209,307</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(120,713)</u>	<u>(116,773)</u>
<b>NET CURRENT ASSETS</b>		<u>164,062</u>	<u>92,534</u>
<b>NET ASSETS</b>		<u>181,471</u>	<u>111,936</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	15	15
Profit and loss account	15,16	<u>181,456</u>	<u>111,921</u>
<b>SHAREHOLDER'S FUNDS</b>	15	<u>181,471</u>	<u>111,936</u>

These financial statements were approved by the Board of Directors on 30 April 2009.

Signed on behalf of the Board of Directors



G R Frazer  
Director

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 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.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Going concern

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a strong expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Share based payments

The Microsoft group operates a number of share-based payment arrangements. These are detailed further in note 18.

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.

#### 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 Microsoft Corporation includes the company in its own published consolidated financial statements (see Note 19).

#### Consolidation

The Company has taken advantage of the exemption from preparing consolidated accounts permitted by S228(A) 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.

#### Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any impairment.

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.

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 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.

#### 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 (third party) and Ireland (group), 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 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
Sales to third parties	78,095	72,494
Sales within the group	512,974	483,128
	<u>591,069</u>	<u>555,622</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 3. OPERATING PROFIT

	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Rentals under operating leases		
Other operating leases	19,100	19,196
Depreciation – owned assets	8,654	8,322
Foreign exchange (gain)	(227)	(248)
Auditors' remuneration:		
- audit services	91	87
- non-audit services	3	-
	<u>          </u>	<u>          </u>

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 27 June 2008 No.	52 weeks ended 29 June 2007 No.
<b>Average number of persons employed (including directors):</b>		
Sales and distribution	2,265	2,282
Administration	75	78
	<u>          </u>	<u>          </u>
	2,340	2,360
	<u>          </u>	<u>          </u>

	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
<b>Staff costs (including directors):</b>		
Wages and salaries	234,657	203,851
Social security costs	25,508	21,912
Pension	15,717	12,295
Share based payments (note 18)	15,373	12,211
	<u>          </u>	<u>          </u>
	291,255	250,269
	<u>          </u>	<u>          </u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

During the period ended 27 June 2008, all of the directors received 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.

In the period ended 29 June 2007, only one director received remuneration of £24,000 and pension of £3,000. The remaining directors received their remuneration for services to group companies from Microsoft Corporation. The proportion of their remuneration that was allocated to their services to Microsoft Limited was £Nil.

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
Bank interest	1,266	871
Interest receivable from parent company	7,258	3,456
Other	1,300	-
	<u>9,824</u>	<u>4,327</u>

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
Interest payable to group undertakings	20	32
	<u>20</u>	<u>32</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
United Kingdom corporation tax	25,193	16,091
Adjustment in respect of prior years	(512)	(460)
Total current tax	24,681	15,631
Deferred tax (note 13)	285	1,181
	<u>24,966</u>	<u>16,812</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% (2007:30%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation.

	52 weeks ended 27 June 2008 %	52 weeks ended 29 June 2007 %
Corporation tax at standard rate	30	30
Capital allowances in excess of depreciation	-	-
Other short term timing differences	-	(1)
Prior year adjustment	(1)	(1)
Permanent adjustments	2	1
Total current tax charge	<u>31</u>	<u>29</u>

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 27 June 2008 £'000	52 weeks ended 29 June 2007 £'000
Paid – Nil (2007: £1,333 per equity ordinary share)	-	20,000

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS 52 weeks ended 27 June 2008

### 9. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
<b>Cost</b>				
At 30 June 2007	39,361	29,740	3,873	72,974
Additions	1,921	4,740	-	6,661
Disposals	-	(144)	-	(144)
At 27 June 2008	41,282	34,336	3,873	79,491
<b>Accumulated depreciation</b>				
At 30 June 2007	24,549	25,826	3,197	53,572
Charge for the period	4,724	3,650	280	8,654
Disposals	-	(144)	-	(144)
At 27 June 2008	29,273	29,332	3,477	62,082
<b>Net book value</b>				
At 27 June 2008	12,009	5,004	396	17,409
At 29 June 2007	14,812	3,914	676	19,402

### 10. 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 27 June 2008 was £610,000 (2007: £610,000), with Net Book Value of £nil (2007: nil).

### 11. DEBTORS

	2008 £'000	2007 £'000
Trade debtors	20,658	24,780
Amounts owed by fellow group undertakings	191,806	107,302
Corporation tax	-	4,818
Other debtors	7,652	5,248
Prepayments and accrued income	5,201	7,933
Deferred tax asset (note 13)	7,723	8,008
	233,040	158,089

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



# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 12. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Trade creditors	10,284	8,610
Corporation tax	6,871	-
Other creditors	682	858
Other taxation and social security	16,831	16,470
Accruals and deferred income	86,045	90,835
	<u>120,713</u>	<u>116,773</u>

### 13. DEFERRED TAX

The deferred tax asset consists of the following amounts:

	2008 £'000	2007 £'000
Depreciation in excess of capital allowances	2,928	3,348
Share based payments	4,795	4,660
	<u>7,723</u>	<u>8,008</u>

	£'000
Balance at 30 June 2007	8,008
Charged to the profit and loss in the period	<u>(285)</u>
Balance at 27 June 2008	<u>7,723</u>

### 14. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised, called up, allotted and fully paid 15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2008 £'000	2007 £'000
Profit for the financial period	54,162	36,951
Dividends paid	-	(20,000)
Share-based payment – contribution received	15,373	12,211
Net addition to shareholder's funds	69,535	29,162
Opening shareholder's funds	111,936	82,774
Closing shareholder's funds	181,471	111,936

### 16. RECONCILIATION OF MOVEMENT IN RESERVES

	2008 £'000	2007 £'000
Profit for the financial period	54,162	36,951
Dividends paid	-	(20,000)
Share-based payment – contribution received	15,373	12,211
Net addition to reserves	69,535	29,162
Opening reserves	111,921	82,759
Closing reserves	181,456	111,921

### 17. OPERATING LEASE COMMITMENTS

At 27 June 2008 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	
	2008 £'000	2007 £'000
Operating leases which expire:		
Within 1 year	195	-
Between 2 and 5 years inclusive	172	291
After 5 years	18,733	18,905
	19,100	19,196

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

### 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:

	2008	2007
Number of share awards	3,239,342	2,506,092
Weighted average exercise price (in £)	-	-
Outstanding at beginning of period	2,506,092	2,131,873
Granted during the period	1,683,001	1,285,899
Forfeited during the period	(317,841)	(238,845)
Exercised during the period	(631,910)	(672,835)
Expired during the period	-	-
Outstanding at the end of the period	3,239,342	2,506,092
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ended 27 June 2008 was \$29.19 (period ended 29 June 2007: \$25.70).

The unvested awards as at 27 June 2008 had a weighted average remaining contractual life of 2.4 years (29 June 2007: 1.9 years).

In both the periods ended 27 June 2008 and 29 June 2007, awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £23,183,405 (2007: £17,373,816).

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 £13,352,895 and £10,465,000 in relation to share award transactions during 2008 and 2007 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 £1,585,082 and £1,055,000 related to SPSA transactions during 2008 and 2007 respectively.

#### Legacy Share-based Payment Schemes

The company recognised a further £434,770 (2007: £691,000) relating to historic share option schemes. No new awards were made under these schemes during the current or preceding financial period.

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**52 weeks ended 27 June 2008**

### **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.

### **21. SUBSEQUENT EVENTS**

On 1 August 2008, the company announced an interim dividend of £50,000,000 for the period ended 3 July 2009.