

**MICROSOFT LIMITED**

**Report and Financial Statements**

**Period ended 30 June 2011**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2011**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2011**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

K R Dolliver  
B O Orndorff  
G R Frazer

#### **SECRETARY**

Reed Smith Corporate Services 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 LLP  
Beaufort House  
15 St Botolph Street  
London  
EC3A 7EE

Osborne Clark  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1AX

Olswang Solicitors  
90 High Holborn  
London  
WC1V 6XX

#### **AUDITORS**

Deloitte LLP  
Reading  
United Kingdom

#### **TAX ADVISERS**

KPMG LLP  
Arlington Business Park  
Theale  
RG1 4SD

# **MICROSOFT LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the period ending ended 30 June 2011. During the year the company changed its annual reporting date to 30 June.

### **ACTIVITIES**

Microsoft Limited, a subsidiary of Microsoft Corporation, continues to market and support systems, devices and applications software for business, professional and home use, including operating systems, network products, languages and applications. 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 turnover for the year amounted to £663m with a profit after taxation of £48m (2010 £660m and £56m respectively). The majority of turnover comprises commissions, based on costs incurred in the marketing and support of systems, devices and applications software for business, professional and home use. In the current year turnover from other group companies reduced from £581m to £578m. The key performance indicator for the company is 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 £85m, which is expected to continue at this level in the following year.

### **DIVIDENDS**

The directors approved a dividend for the period of £56.466m (2010 £62.0m).

### **RISKS AND UNCERTAINTIES**

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. 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. The company's principal financial assets are bank balances and cash, trade and other receivables, and investments. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

### **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. The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors 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**

### **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 £311,428 (2010 £250,869) No political donations were made (2010 £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.

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 values diversity and sees equal opportunity as making the best use of the talents of all employees and potential employees. As such it is the company's policy to give full and fair consideration to applications for employment by disabled persons, bearing in mind the abilities of the applicant concerned. The company will not tolerate discrimination in the workplace and aims to ensure that each employee feels valued, and has the opportunity to contribute fully to the success of the company.

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.

In the event of an employee becoming disabled, the company endeavours to continue their employment, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

# **MICROSOFT LIMITED**

## **DIRECTORS' REPORT**

### **AUDITORS**

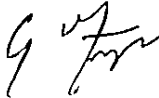
Each of the persons who is a director at the date of approval of this report confirms that

- 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 s418 of the Companies Act 2006

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

15 December 2011

## **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). 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 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 accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 period ending ended 30 June 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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**

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. Our responsibility is to audit and provide an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practising Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as 30 June 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Andrew Bond ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Reading,

United Kingdom

15 December 2011



# MICROSOFT LIMITED

## PROFIT AND LOSS ACCOUNT

Period ended 30 June 2011

	Note	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
<b>TURNOVER</b>	2	663,198	659,965
Cost of sales		(79,981)	(73,102)
<b>GROSS PROFIT</b>		583,217	586,863
Distribution costs		(116,165)	(113,330)
Administrative expenses (net)		(401,086)	(399,133)
<b>OPERATING PROFIT</b>	3	65,966	74,400
Loss on disposal of fixed assets		(955)	(432)
Interest receivable and similar income	5	1,527	2,966
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		66,538	76,934
Tax on profit on ordinary activities	6	(19,024)	(20,950)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		47,514	55,984

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

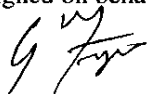
# MICROSOFT LIMITED

## BALANCE SHEET 30 June 2011

	Note	30 June 2011 £'000	2 July 2010 £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	11,246	13,224
<b>CURRENT ASSETS</b>			
Debtors	9	307,711	291,198
Cash at bank and in hand		2,093	4,682
		<u>309,804</u>	<u>295,880</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(131,500)</u>	<u>(138,047)</u>
<b>NET CURRENT ASSETS</b>		178,304	157,833
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		189,550	171,057
<b>Provision for liabilities and charges</b>	12	<u>(9,088)</u>	<u>(8,820)</u>
<b>NET ASSETS</b>		<u>180,462</u>	<u>162,237</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	15	15
Profit and loss account	14	<u>180,447</u>	<u>162,222</u>
<b>SHAREHOLDER'S FUNDS</b>	14	<u>180,462</u>	<u>162,237</u>

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on **15** December 2011

Signed on behalf of the Board of Directors



G R Frazer  
Director

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**Period ended 30 June 2011**

### **1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies are described below and have been applied consistently over the year and preceding year.

#### **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. The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

#### **Turnover**

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a proportion of the total contract value.

#### **Share based payments**

The Microsoft group operates a number of share-based payment arrangements.

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 16 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 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 S401 of the Companies Act 2006 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 company has amended its accounting period to be the year ending on 30 June. In previous years the accounting period was the fifty two or fifty three week period ending on the Friday closest to 30 June. The financial period for 2011 is therefore from 3 July 2010 to the 30 June 2011 and the comparative period is the 52 weeks ended 2 July 2010.

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**Period ended 30 June 2011**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **Leases**

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

#### **Provisions**

Provisions are recognised when the company has a present obligation in respect of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material

#### **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

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Period ended 30 June 2011

### 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, devices and applications software. It includes commission receivable by the company under agreements with a fellow subsidiary.

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
Sales to third parties	85,197	78,926
Sales within the group	578,001	581,039
	<u>663,198</u>	<u>659,965</u>

### 3. OPERATING PROFIT

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Rentals under operating leases		
- other operating leases	17,208	19,271
Rental income	(268)	(1,217)
Depreciation – owned assets	4,777	5,929
Foreign exchange loss	53	80
Auditors' remuneration		
- audit services	80	73
- non-audit services	-	12
	<u></u>	<u></u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS Period ended 30 June 2011

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Period ended 30 June 2011 No.	52 weeks ended 2 July 2010 No.
<b>Average number of persons employed (including directors):</b>		
Sales and distribution	2,404	2,671
Administration	111	121
	<u>2,515</u>	<u>2,792</u>
	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
<b>Staff costs (including directors).</b>		
Wages and salaries	245,914	254,914
Social security costs	26,612	27,180
Pension	17,846	18,186
	<u>290,372</u>	<u>300,280</u>

The directors received their remuneration for services to group companies from Microsoft Corporation. The proportion of their remuneration that was allocated for services to Microsoft Limited was £nil.

During the prior year all the directors received their remuneration for services to group companies from Microsoft Corporation. The proportion of their remuneration that is allocated for the services to Microsoft Limited was £nil.

At the 30 June 2011 there were one month's pension contributions totalling £1.6m outstanding, this is included in creditors (2010: £nil).

The share based payment charge for the year was £27.2m (2010: £23.9m), refer to note 16.

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
Interest receivable from parent company	1,527	2,353
Other	-	613
	<u>1,527</u>	<u>2,966</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Period ended 30 June 2011

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
United Kingdom corporation tax	20,474	23,781
Adjustment in respect of prior years	346	(655)
Total current tax	20,820	23,126
Deferred tax (note 11)	(1,796)	(2,176)
	<u>19,024</u>	<u>20,950</u>

#### Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 27.5% (2010: 28%)

The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
Profit on ordinary activities before tax	66,538	76,934
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 27.5% (2010: 28%)	18,298	21,542
Effects of		
Depreciation on non-qualifying assets	96	189
Permanent adjustments	765	1,278
Capital allowances in excess of depreciation	(115)	4
Short term timing differences	79	-
Share schemes	1,351	768
Prior year adjustment	346	(655)
Total current tax charge	<u>20,820</u>	<u>23,126</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

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS Period ended 30 June 2011

### 7. DIVIDENDS

	Period ended 30 June 2011 £'000	52 weeks ended 2 July 2010 £'000
Paid – £3,764 per equity ordinary share (2010 £4,133 per equity ordinary share)	56,466	62,000

### 8. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
<b>Cost</b>				
At 2 July 2010	25,527	28,013	4,734	58,274
Additions	504	3,313	-	3,817
Disposals	(89)	(1,297)	(1,009)	(2,395)
At 30 June 2011	25,942	30,029	3,725	59,696
<b>Accumulated depreciation</b>				
At 2 July 2010	16,541	24,633	3,876	45,050
Charge for the period	1,994	2,594	189	4,777
Disposals	-	(837)	(540)	(1,377)
At 30 June 2011	18,535	26,390	3,525	48,450
<b>Net book value</b>				
At 30 June 2011	7,407	3,639	200	11,246
At 2 July 2010	8,986	3,380	858	13,224

### 9. DEBTORS

	2011 £'000	2010 £'000
Trade debtors	37,936	20,794
Amounts owed by fellow group undertakings	241,487	246,200
Corporation tax	6,146	-
Other debtors	3,000	4,064
Prepayments and accrued income	5,587	8,381
Deferred tax asset (note 11)	13,555	11,759
	307,711	291,198

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

Period ended 30 June 2011

### 10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Trade creditors	9,778	6,550
Corporation tax	-	5,723
Other creditors	2,390	1,966
Other taxation and social security	17,011	21,034
Accruals and deferred income	101,530	101,689
Amounts owing to fellow group undertakings	791	1,085
	<u>131,500</u>	<u>138,047</u>

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

### 11. DEFERRED TAX

The deferred tax asset consists of the following amounts

	2011 £'000	2010 £'000
Depreciation in excess of capital allowances	2,945	2,785
Share based payments	10,610	8,974
	<u>13,555</u>	<u>11,759</u>

	£'000
Balance at 2 July 2010	11,759
Charged to the profit and loss in the period	<u>1,796</u>
Balance at 30 June 2011	<u>13,555</u>

Finance (No 2) Act 2010 was substantively enacted on 27 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Subsequently, on 29 March 2011 under the Provisional Collection of Taxes Act, the corporation tax rate was reduced to 26% with effect from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 March 2011, as the reduction in statutory rate by 2% has been substantively enacted, deferred tax has been recognised on the balance sheet at 26%.

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS Period ended 30 June 2011

### 12. PROVISIONS FOR LIABILITIES

	<b>Dilapidations</b>	<b>Onerous leases</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 2 July 2010	3,195	5,625	-	8,820
Transferred from accruals	-	-	5,014	5,014
Utilised in the period	(160)	(309)	(4,075)	(4,544)
Charged to the profit and loss in the period	346	258	5,152	5,756
Released to the profit and loss in the period	(1,536)	(4,422)	-	(5,958)
Balance at 30 June 2011	<u>1,845</u>	<u>1,152</u>	<u>6,091</u>	<u>9,088</u>

The provision for dilapidations is being built up to provide for potential charges at the end of the lease period on rental properties. On average the leases expire within 5 to 10 years of the year end date.

The onerous lease provision is being built up to provide for rent expenses payable under Operating Lease Contracts for the properties which will not be used, sub-let or surrendered in the foreseeable future. The properties are being actively marketed and it is the company's intention to utilise/release this provision within the next year.

Other provisions relate to National Insurance contributions (NIC) which will become payable on the vesting of share awards. The share awards vest over a 5 year period. Employees do not make any payment for the share awards. The provision has been calculated based on the share price at the balance sheet date of £16.02 and the rate of NIC is 13.8%.

### 13. CALLED UP SHARE CAPITAL

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised, called up, allotted and fully paid</b>		
15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

### 14. STATEMENT OF MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit for the financial period</b>	47,514	55,984
Dividends paid	(56,466)	(62,000)
Share-based payment – contribution received	27,177	23,935
Capital contribution from parent company	-	10
Net addition to shareholder's funds	<u>18,225</u>	<u>17,929</u>
<b>Opening shareholder's funds</b>	<u>162,237</u>	<u>144,308</u>
<b>Closing shareholder's funds</b>	<u>180,462</u>	<u>162,237</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Period ended 30 June 2011

### 15. OPERATING LEASE COMMITMENTS

At 30 June 2011 the company was committed to making the following payments during the next year in respect of operating leases

	<b>Land and buildings</b>	
	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases which expire		
Within 1 year	204	3,920
Between 2 and 5 years inclusive	957	687
After 5 years	13,185	14,002
	<u>14,346</u>	<u>18,609</u>

### 16. 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

	<b>2011</b>	<b>2010</b>
Number of share awards	5,114,991	4,568,907
Outstanding at beginning of period	4,568,907	3,924,946
Granted during the period	2,475,550	2,294,842
Forfeited during the period	(687,177)	(533,386)
Exercised during the period	(1,242,289)	(1,117,495)
Expired during the period	-	-
Outstanding at the end of the period	5,114,991	4,568,907
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ending ended 30 June 2011 was \$24.10 (period ended 2 July 2010: \$26.63).

The unvested awards as at 30 June 2011 had a weighted average remaining contractual life of 3.3 years (2 July 2010: 1.4 years).

In both the periods ended 30 June 2011 and 2 July 2010, awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £37,228,257 (2010: £33,595,240).

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 £25,283,603 and £22,794,875 in relation to share award transactions during 2011 and 2010 respectively.

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**Period ended 30 June 2011**

### **16. SHARE BASED PAYMENTS (CONTINUED)**

#### **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 £1,586,298 and £814,287 related to SPSA transactions during 2011 and 2010 respectively.

#### **Employee share purchase plan**

The company recognised a further £307,223 (2010: £325,437) relating to employee share purchase plan during the year.

### **17. CONTINGENT LIABILITIES**

The company stands as guarantor for the lease obligation between Lionhead Studios Limited and the University of Surrey. The potential contingent liability is £657,610. In addition, the company stands as guarantor pursuant to the Licence for Alterations in respect of the same properties.

### **18. SUBSEQUENT EVENTS**

In October 2011 Microsoft Corporation acquired Skype. It has not yet been determined what, if any, of the trade and assets of Skype will be allocated to Microsoft Limited, and as such the company cannot provide any estimate of the financial effect.

### **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.