

MICROSOFT LIMITED

Report and Financial Statements

52 weeks ended 2 July 2010

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MICROSOFT LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

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MICROSOFT LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

K R Dolliver
B O Orndorff
G R Frazer

SECRETARY

R B Secretariat Limited

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AUDITORS

Deloitte LLP
Chartered Accountants
Abbots House, Abbey Street
Reading
RG1 3BD

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 52 weeks ended 2 July 2010

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. 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 from other group companies grew from £551m to £581m. 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 £79m (2009 £89m), which is expected to continue at this level in the following year.

DIVIDENDS

The directors approved a dividend for the period of £62m (2009 £104m).

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.

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 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 (CONTINUED)

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 £250,869 (2009 £424 595) No political donations were made (2009 £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 where, 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 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

25 March 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 52 weeks ended 2 July 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 22. 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.

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 at 2 July 2010 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.

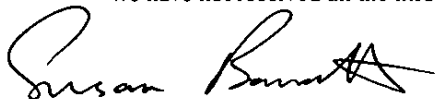
Opinion on other matter prescribed by the Companies Act 2006

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.



Susan Barratt, BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Reading, United Kingdom

25 March 2011

MICROSOFT LIMITED

PROFIT AND LOSS ACCOUNT

52 weeks ended 2 July 2010

	Note	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
TURNOVER	2	659,965	639,879
Cost of sales		(73,102)	(83,724)
GROSS PROFIT		586,863	556,155
Distribution costs		(113,330)	(81,086)
Administrative expenses (net)		(399,133)	(397,380)
OPERATING PROFIT	3	74,400	77,689
Loss on disposal of fixed assets		(432)	-
Dividend income		-	1,193
Interest receivable and similar income	5	2,966	7,295
Interest payable and similar charges	6	-	(49)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		76,934	86,128
Tax on profit on ordinary activities	7	(20,950)	(23,646)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		55,984	62,482

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

2 July 2010

	Note	2 July 2010 £'000	3 July 2009 £'000
FIXED ASSETS			
Tangible assets	9	13,224	16,684
Investments	10	-	-
		<u>13,224</u>	<u>16,684</u>
CURRENT ASSETS			
Debtors	11	291,198	250,704
Cash at bank and in hand		4,682	6,783
		<u>295,880</u>	<u>257,487</u>
CREDITORS: amounts falling due within one year	12	<u>(138,047)</u>	<u>(129,863)</u>
NET CURRENT ASSETS		157,833	127,624
TOTAL ASSETS LESS CURRENT LIABILITIES		171,057	144,308
Provision for liabilities and charges	14	<u>(8,820)</u>	<u>-</u>
NET ASSETS		<u>162,237</u>	<u>144,308</u>
CAPITAL AND RESERVES			
Called up share capital	15	15	15
Profit and loss account	17	<u>162,222</u>	<u>144,293</u>
SHAREHOLDER'S FUNDS	16	<u>162,237</u>	<u>144,308</u>

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on 25 March 2011

Signed on behalf of the Board of Directors



G R Frazer
Director

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

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 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.

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 19 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 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.

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.

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

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, 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 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Sales to third parties	78,926	88,971
Sales within the group	581,039	550,908
	<u>659,965</u>	<u>639,879</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

3. OPERATING PROFIT

	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Operating profit is stated after charging/(crediting):		
Rentals under operating leases		
- other operating leases	19,271	19,130
Rental income	(1,217)	(1,638)
Depreciation – owned assets	5,929	7,712
Foreign exchange loss	80	281
Auditors' remuneration		
- audit services	73	84
- non-audit services	12	3
	<u>19,153</u>	<u>16,562</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 2 July 2010 No	53 weeks ended 3 July 2009 No
Average number of persons employed (including directors):		
Sales and distribution	2,671	2,800
Administration	121	147
	<u>2,792</u>	<u>2,947</u>

	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Staff costs (including directors):		
Wages and salaries	273,072	269,238
Social security costs	29,042	28,717
Pension	18,186	18,736
Share based payments (note 19)	23,935	19,020
	<u>344,235</u>	<u>335,711</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

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

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Bank interest	-	335
Interest receivable from parent company	2,353	6,960
Other	613	-
	<u>2,966</u>	<u>7,295</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Interest payable to group undertakings	-	49
	<u>-</u>	<u>49</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
United Kingdom corporation tax	23,781	26,678
Adjustment in respect of prior years	(655)	(1,172)
Total current tax	23,126	25,506
Deferred tax (note 13)	(2,176)	(1,860)
	<u>20,950</u>	<u>23,646</u>

Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2009 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

	52 weeks ended 2 July 2010 %	53 weeks ended 3 July 2009 %
Corporation tax at standard rate	28	28
Share schemes	1	1
Prior year adjustment	(1)	(1)
Permanent adjustments	2	2
Total current tax charge	<u>30</u>	<u>30</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 2 July 2010 £'000	53 weeks ended 3 July 2009 £'000
Paid – £4,133 per equity ordinary share (2009 £6,934 per equity ordinary share)	<u>62,000</u>	<u>104,000</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

9. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 3 July 2009	44,503	37,250	4,616	86,369
Additions	300	2,521	118	2,939
Disposals	(19,276)	(11,758)	-	(31,034)
At 2 July 2010	25,527	28,013	4,734	58,274
Accumulated depreciation				
At 3 July 2009	32,603	33,395	3,687	69,685
Charge for the period	2,746	2,994	189	5,929
Disposals	(18,808)	(11,756)	-	(30,564)
At 2 July 2010	16,541	24,633	3,876	45,050
Net book value				
At 2 July 2010	8,986	3,380	858	13,224
At 3 July 2009	11,900	3,855	929	16,684

10. INVESTMENTS

The company had 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 2 July 2010 was £610,000 (2009 £610,000), with Net Book Value of £nil (2009 nil). TDIC has been dissolved with effect from 3 August 2010. All intercompany balances have been settled.

11. DEBTORS

	2010 £'000	2009 £'000
Trade debtors	20,794	22,446
Amounts owed by fellow group undertakings	246,200	202,144
Other debtors	4,064	2,291
Prepayments and accrued income	8,381	14,240
Deferred tax asset (note 13)	11,759	9,583
	291,198	250,704

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 2 July 2010

12. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Trade creditors	6,550	9,527
Corporation tax	5,723	6,778
Other creditors	1,966	3,433
Other taxation and social security	21,034	17,889
Accruals and deferred income	101,689	86,690
Amounts owing to fellow group undertakings	1,085	5,546
	<u>138,047</u>	<u>129,863</u>

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

13. DEFERRED TAX

The deferred tax asset consists of the following amounts

	2010 £'000	2009 £'000
Depreciation in excess of capital allowances	2,785	2,809
Share based payments	8,974	6,774
	<u>11,759</u>	<u>9,583</u>
		£'000
Balance at 3 July 2009		9,583
Charged to the profit and loss in the period		2,176
Balance at 2 July 2010		<u>11,759</u>

14. PROVISIONS FOR LIABILITIES

	Dilapidations £'000	Onerous leases £'000	Total £'000
Balance at 3 July 2009	-	-	-
Transferred from accruals	-	4,848	4,848
Utilised in the period		(701)	(701)
Charged to the profit and loss in the period	3,195	1,478	4,673
Balance at 2 July 2010	<u>3,195</u>	<u>5,625</u>	<u>8,820</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.

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

15. CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised, called up, allotted and fully paid 15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2010 £'000	2009 £'000
Profit for the financial period	55,984	62,482
Dividends paid	(62,000)	(104,000)
Share-based payment – contribution received	23,935	19,020
Distribution to parent company	-	(14,665)
Capital contribution from parent company	<u>10</u>	<u>-</u>
Net addition to shareholder's funds	17,929	(37,163)
Opening shareholder's funds	<u>144,308</u>	<u>181,471</u>
Closing shareholder's funds	<u>162,237</u>	<u>144,308</u>

17. RECONCILIATION OF MOVEMENT IN RESERVES

	2010 £'000	2009 £'000
Profit for the financial period	55,984	62,482
Dividends paid	(62,000)	(104,000)
Share-based payment – contribution received	23,935	19,020
Distribution to parent company	-	(14,665)
Capital contribution from parent company	<u>10</u>	<u>-</u>
Net addition to reserves	17,929	(37,163)
Opening reserves	<u>144,293</u>	<u>181,456</u>
Closing reserves	<u>162,222</u>	<u>144,293</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

18. OPERATING LEASE COMMITMENTS

At 2 July 2010 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings	
	2010 £'000	2009 £'000
Operating leases which expire		
Within 1 year	3,920	917
Between 2 and 5 years inclusive	687	1,492
After 5 years	14,002	16,721
	<u>18,609</u>	<u>19,130</u>

19. 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

	2010	2009
Number of share awards	4,568,907	3,924,946
Outstanding at beginning of period	3,924,946	3,239,342
Granted during the period	2,294,842	1,820,059
Forfeited during the period	(533,386)	(306,177)
Exercised during the period	(1,117,495)	(828,278)
Expired during the period	-	-
Outstanding at the end of the period	4,568,907	3,924,946
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ended 2 July 2010 was \$26.63 (period ended 3 July 2009 \$26.02).

The unvested awards as at 2 July 2010 had a weighted average remaining contractual life of 1.4 years (3 July 2009 2.6 years).

In both the periods ended 2 July 2010 and 3 July 2009, awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £33,595,240 (2009 £27,616,413).

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 £22,794,875 and £17,611,950 in relation to share award transactions during 2010 and 2009 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.

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 2010

19. SHARE BASED PAYMENTS (CONTINUED)

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 £814,287 and £990,172 related to SPSA transactions during 2010 and 2009 respectively

Legacy Share-based Payment Schemes

The company recognised a further £325,437 (2009 £417,553) relating to historic share option schemes. No new awards were made under these schemes during the current or preceding financial period

20. 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 £456,500. In addition, the Company stands as guarantor pursuant to the Licence for Alterations in respect of the same properties

21. 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

22. 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