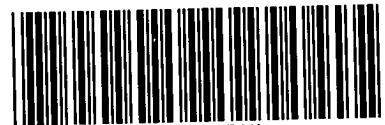


**MICROSOFT LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2014**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2014**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2014**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

K R Dolliver  
B O Orndorff  
Michel Van der Bel

#### **SECRETARY**

Reed Smith Corporate Services Limited

#### **REGISTERED OFFICE**

Microsoft Campus  
Thames Valley Park  
Reading  
Berkshire  
RG6 1WG

#### **BANKERS**

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

#### **SOLICITORS**

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

#### **AUDITOR**

Deloitte LLP  
Reading  
United Kingdom

# **MICROSOFT LIMITED**

## **STRATEGIC REPORT**

The directors present their Strategic Report for Microsoft Limited (“the Company”) for the year ended 30 June 2014.

### **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 services to other group companies. Turnover for the year amounted to £916m (2013: £860m) with a profit after taxation of £61m (2013: £51m). The majority of turnover comprises commissions from other group companies. In the current year turnover from other group companies increased to £791m from £746m in 2013 driven by an increased cost base as the Company continued to support Microsoft’s UK growth.

The key performance indicator for the company is based on return on employee investment as this is the main contributor to costs. Return on employee investment in the current year was 14% (2013: 13%). 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 in the Directors’ Report.

Revenue is also generated from the Services business through its Managed Support and Consulting divisions. The Managed Support business provides onsite technical experts to enhance the performance of customers’ 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 deployment of Microsoft products. This represents the sales to third parties of £125m (2013: £114m).

We believe the Company will continue to grow through marketing and support services in the UK as Microsoft continues to transform its business as the productivity and platform company for the mobile-first and cloud-first world. Through marketing and support services, we will continue to support Microsoft’s efforts in the UK market in creating new opportunities for partners, increase customer satisfaction, and improve our service excellence, business efficacy, and internal processes.

In April 2014 Microsoft Corporation acquired substantially all of Nokia’s Devices and Services Business. It has not yet been determined what, if any, of the trade and assets of Nokia will be transferred to Microsoft Limited, and as such the company cannot provide any estimate of the financial effect. The legal integration of the UK Nokia business is expected to occur in February 2015. Further information can be found in the consolidated accounts of Microsoft Corporation.

### **STRATEGY, OBJECTIVES AND BUSINESS MODEL**

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2014, which are publicly available. Microsoft Limited’s business model is expected to remain as it continues to provide marketing and support services to Microsoft’s UK customer base.

### **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 has no significant borrowings or foreign exchange exposure. The company’s principal financial assets are bank balances and cash, trade and other receivables. 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.

**MICROSOFT LIMITED**

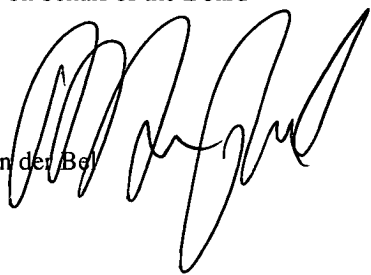
**STRATEGIC REPORT (continued)**

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

Michel Van der Beek

Director

25 March 2015

A handwritten signature in black ink, appearing to be 'M. Van der Beek', written over the printed name.

# **MICROSOFT LIMITED**

## **DIRECTORS REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2014.

### **DIVIDENDS**

The directors approved a dividend for the period of £51.0m (2013: £53.1m).

### **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 at least 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.

### **DIRECTORS**

The directors who served during the period and up to the date of this report are shown on page 1.

### **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 (continued)

### AUDITOR

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 auditor is 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 auditor is 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 auditor. 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

Michel Van der Bel

Director

25 March 2015

## **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 judgements 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 AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT LIMITED**

We have audited the financial statements of Microsoft Limited for the year ended 30 June 2014 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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 express 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 Practices 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of its profit for the year 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 Strategic Report and 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 FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
Reading,  
United Kingdom

25 March 2015

**MICROSOFT LIMITED****PROFIT AND LOSS ACCOUNT****Year ended 30 June 2014**

	Notes	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>TURNOVER</b>	2	915,607	860,174
Cost of sales		(104,449)	(99,388)
<b>GROSS PROFIT</b>		811,158	760,786
Distribution costs		(196,003)	(189,933)
Administrative expenses		(534,325)	(502,887)
<b>OPERATING PROFIT</b>	3	80,830	67,966
Interest receivable and similar income	5	1,654	1,873
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		82,484	69,839
Tax on profit on ordinary activities	6	(21,850)	(18,803)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		60,634	51,036

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

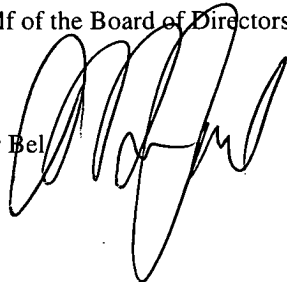
30 June 2014

	Note	30 June 2014 £'000	30 June 2013 £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	37,030	34,698
<b>CURRENT ASSETS</b>			
Debtors	9	487,506	440,125
		<u>487,506</u>	<u>440,125</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(223,473)</u>	<u>(216,530)</u>
<b>NET CURRENT ASSETS</b>		264,033	223,595
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		301,063	258,293
<b>Provision for liabilities and charges</b>	12	<u>(14,294)</u>	<u>(14,103)</u>
<b>NET ASSETS</b>		<u>286,769</u>	<u>244,190</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	15	15
Profit and loss account		<u>286,754</u>	<u>244,175</u>
<b>SHAREHOLDER'S FUNDS</b>	14	<u>286,769</u>	<u>244,190</u>

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on 25 March 2015.

Signed on behalf of the Board of Directors

Michel Van der Bel



# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2014

### 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 at least 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.

#### Tangible fixed assets

Tangible 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.

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**Year ended 30 June 2014**

### **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.

Lease incentives are considered as part of the overall cost of the lease and amortised straight line 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 substantively 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.

#### **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

Year ended 30 June 2014

### 2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the period. Turnover is attributable to the provision of marketing and support services to group companies. It includes commission receivable by the company under agreements with a fellow subsidiary.

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Sales to third parties	124,765	113,852
Sales within the group	790,842	746,322
	<u>915,607</u>	<u>860,174</u>

### 3. OPERATING PROFIT

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Rentals under operating leases		
- other operating leases	19,873	19,725
Rental income	(163)	(397)
Depreciation – owned assets	13,211	7,612
Consideration for transfer of Yammer employees	-	637
Consideration for transfer of Yammer trade and assets	-	762
Foreign exchange loss or (gain)	357	(61)
Auditor's remuneration:		
- audit services	101	98
	<u>101</u>	<u>98</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2014

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 30 June 2014 No.	Year ended 30 June 2013 No.
<b>Average number of persons employed (including directors):</b>		
Sales and distribution	2,954	2,877
Administration	187	148
	<u>3,141</u>	<u>3,025</u>
	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Staff costs (including directors):</b>		
Wages and salaries	360,611	332,042
Social security costs	37,475	34,780
Pension	28,826	24,128
	<u>426,912</u>	<u>390,950</u>

Only one director (2013: one) received remuneration through the Company. All other directors in the current and all directors in the prior year received their remuneration from Microsoft Corporation with £nil (2013: £nil) allocated to Microsoft Limited.

Details of the remuneration of the highest and only paid director of the company are as follows. Remuneration in respect of qualifying services £840k (2013: £661k), company contributions to money purchase pension schemes £19.9k (2013: £17.9k).

One director received shares under a long-term incentive scheme and one director has benefits accruing under a money purchase pension scheme.

At 30 June 2014 there were £nil pension contributions outstanding (2013: £2m); this is included in creditors.

The share-based payment charge for the year was £33.0m (2013: £31.8m), refer to note 16.

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Interest receivable from parent company	<u>1,654</u>	<u>1,873</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2014

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
United Kingdom corporation tax	19,217	18,652
Adjustment in respect of prior years	(370)	(529)
Total current tax	18,847	18,123
Deferred tax – current year (note 11)	3,496	277
Deferred tax – prior year adjustment (note 11)	(493)	403
	<u>21,850</u>	<u>18,803</u>

#### Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 22.5% (2013: 23.75%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Profit on ordinary activities before tax	82,484	69,839
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.5% (2013: 23.75%)	18,559	16,587
Effects of:		
Depreciation on non-qualifying assets	747	638
Permanent adjustments	807	1,094
Depreciation in excess of capital allowances	512	130
Short-term timing differences	(528)	29
Share schemes	(880)	174
Prior year adjustment	(370)	(529)
Total current tax charge	<u>18,847</u>	<u>18,123</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.

In October 2012 Microsoft Limited entered into an Advance Pricing Agreement with the respective tax authorities of the United Kingdom and the Republic of Ireland defining and agreeing the appropriate compensation to be paid to Microsoft Limited for the services it renders to group companies. This agreement covers Microsoft Limited's fiscal years 2011 through to 2017.

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.



# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS Year ended 30 June 2014

### 7. DIVIDENDS

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Paid – £3,402 per equity ordinary share (2013: £3,542 per equity ordinary share)	51,036	53,129

### 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 1 July 2013	29,473	42,157	22,520	94,150
Additions	1,322	9,255	5,039	15,616
Disposals	(52)	(1,724)	(23)	(1,799)
At 30 June 2014	30,743	49,688	27,536	107,967
<b>Accumulated depreciation</b>				
At 1 July 2013	20,995	33,310	5,147	59,452
Charge for the period	2,230	7,966	3,015	13,211
Disposals	(9)	(1,717)	-	(1,726)
At 30 June 2014	23,216	39,559	8,162	70,937
<b>Net book value</b>				
At 30 June 2014	7,527	10,129	19,374	37,030
At 30 June 2013	8,478	8,847	17,373	34,698

### 9. DEBTORS

	2014 £'000	2013 £'000
Trade debtors	43,184	57,158
Amounts owed by fellow group undertakings	409,356	357,939
Other debtors	6,265	4,387
Prepayments and accrued income	19,849	8,786
Deferred tax asset (note 11)	8,852	11,855
	487,506	440,125

Interest in the current and prior year 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 Year ended 30 June 2014

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

	2014 £'000	2013 £'000
Bank overdraft	723	477
Trade creditors	17,953	25,580
Corporation tax	1,655	446
Other creditors	1,459	3,129
Other taxation and social security	14,456	20,377
Accruals and deferred income	187,227	166,521
	<u>223,473</u>	<u>216,530</u>

Interest in the current and prior year 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:

	2014 £'000	2013 £'000
Depreciation in excess of capital allowances	2,441	2,331
Share-based payments	6,411	9,524
	<u>8,852</u>	<u>11,855</u>
		£'000
Balance at 30 June 2013		11,855
Charged to the profit and loss in the year		(3,496)
Prior year deferred tax adjustment		493
		<u>8,852</u>
Balance at 30 June 2014		<u>8,852</u>

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.

The company also has unrecognised deferred tax assets of £3.8m in relation to tax losses carried forward. The company does not consider that there will be suitable taxable income in the future against which these losses will be utilised.

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS Year ended 30 June 2014

### 12. PROVISIONS FOR LIABILITIES

	<b>Dilapidations</b>	<b>Onerous leases</b>	<b>NIC on shares</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 1 July 2013	3,573	467	10,063	14,103
Utilised in the period	-	-	-	-
Charged to the profit and loss in the period	494	-	-	494
Released to the profit and loss in the period	-	(271)	(32)	(303)
Balance at 30 June 2014	<u>4,067</u>	<u>196</u>	<u>10,031</u>	<u>14,294</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.

The provisions on National Insurance contributions (NIC) 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 £25.3 and the rate of NIC is 13.8%.

### 13. CALLED UP SHARE CAPITAL

	<b>2014</b>	<b>2013</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 SHAREHOLDER'S FUNDS

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial period	60,634	51,036
Dividends paid	(51,036)	(53,129)
Share-based payment – contribution received	32,981	31,784
Net addition to shareholder's funds	<u>42,579</u>	<u>29,691</u>
<b>Opening shareholder's funds</b>	<u>244,190</u>	<u>214,499</u>
<b>Closing shareholder's funds</b>	<u>286,769</u>	<u>244,190</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2014

### 15. OPERATING LEASE COMMITMENTS

At 30 June 2014 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	
	2014	2013
	£'000	£'000
Operating leases which expire:		
Within 1 year	-	515
Between 2 and 5 years inclusive	7,528	5,973
After 5 years	12,274	12,274
	<u>19,802</u>	<u>18,762</u>

### 16. SHARE-BASED PAYMENTS

The group has an equity settled 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:

	2014	2013
Number of share awards	4,839,020	5,054,230
Outstanding at beginning of year	5,054,230	5,116,366
Granted during the year	2,093,957	1,970,249
Forfeited during the year	(730,023)	(555,490)
Exercised during the year	(1,579,144)	(1,476,895)
Expired during the year	-	-
Outstanding at the end of the year	<u>4,839,020</u>	<u>5,054,230</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2014 was \$25.94 (2013: \$30.15).

The unvested awards as at 30 June 2014 had a weighted average remaining contractual life of 3.04 years (2013: 3.09 years).

In both 2014 and 2013 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £40.5m (2013: £38.5m).

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 £29.8m and £28.2m in relation to share award transactions during 2014 and 2013 respectively.

Please refer to the Microsoft Corporation Form 10-K for details of the model and the assumptions used.

# **MICROSOFT LIMITED**

## **NOTES TO THE ACCOUNTS**

**Year ended 30 June 2014**

### **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 £2,753,063 and £3,147,586 related to SPSA transactions during 2014 and 2013 respectively.

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

The company recognised a further £436,138 (2013: £364,569) relating to the 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 £664,110. In addition, the company stands as guarantor pursuant to the Licence for Alterations in respect of the same properties.

### **18. SUBSEQUENT EVENTS**

No material events have taken place subsequent to the year end.

### **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.