

**MICROSOFT LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2013**



# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2013**

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# **MICROSOFT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2013**

### **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**

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**

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

#### **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 year ended 30 June 2013

### **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. The turnover for the year amounted to £860m with a profit after taxation of £51m (2012: £718m and £53m respectively). The majority of turnover comprises commissions from other group companies. In the current year turnover from other group companies increased to £746m from £619m. 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 13% (2012: 16%). 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 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 Microsoft products. This represents the sales to third parties of £114m (2012: £99m), which is expected to continue at this level in the following year.

There has been an overall increase in sales and distribution costs, administrative expenses and payroll costs due primarily to several key product launches during the year and the inclusion of a full year of costs for the Skype business. In the current year management has made the decision to reclassify certain marketing costs of £58.9m from Administrative expenses to Distribution costs in order to better reflect the nature of the costs and the way management reviews the performance of the business. If the treatment had been the same in the prior year the comparatives would have been £127.6m and £422.4m for Distribution costs and Administrative expenses respectively.

During the year the company acquired the workforce and transferred assets of Yammer UK, a wholly owned subsidiary of Microsoft Corp. The company paid consideration of £0.6m for the workforce and £0.8m for the transferred assets, this represented the value of the net assets acquired and therefore no gain or loss has been recognized on this investment.

### **DIVIDENDS**

The directors approved a dividend for the period of £53.1m (2012: £47.5m).

### **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. 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 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.

## **MICROSOFT LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **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

#### **CHARITABLE DONATIONS**

During the period, the company made donations for charitable purposes which amounted to £410,960 (2012 £341,757) No political donations were made (2012 £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 (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

A handwritten signature in black ink, appearing to read 'Michel Van der Bel', written over a light blue horizontal line.

19 March 2014

## **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 2013 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 Audit 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 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 2013 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 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  
Chartered Accountants and Statutory Auditor  
Reading,  
United Kingdom

19 March 2014



# MICROSOFT LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 30 June 2013

	Notes	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>TURNOVER</b>	2	860,174	718,262
Cost of sales		(99,388)	(95,345)
<b>GROSS PROFIT</b>		760,786	622,917
Distribution costs		(189,933)	(98,231)
Administrative expenses		(502,887)	(451,818)
<b>OPERATING PROFIT</b>	3	67,966	72,868
Interest receivable and similar income	5	1,873	1,656
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		69,839	74,524
Tax on profit on ordinary activities	6	(18,803)	(21,395)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		51,036	53,129

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 2013

	Note	30 June 2013 £'000	30 June 2012 £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	34,698	19,441
<b>CURRENT ASSETS</b>			
Debtors	9	440,125	376,699
Cash at bank and in hand		-	1,020
		<u>440,125</u>	<u>377,719</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(216,530)</u>	<u>(170,548)</u>
<b>NET CURRENT ASSETS</b>		223,595	207,171
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		258,293	226,612
<b>Provision for liabilities and charges</b>	12	<u>(14,103)</u>	<u>(12,113)</u>
<b>NET ASSETS</b>		<u>244,190</u>	<u>214,499</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	15	15
Profit and loss account		<u>244,175</u>	<u>214,484</u>
<b>SHAREHOLDER'S FUNDS</b>	14	<u>244,190</u>	<u>214,499</u>

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on 19 March 2014

Signed on behalf of the Board of Directors

Michel Van der Bel



# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2013

### 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 2013**

### **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 2013

### 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 2013 £'000	Year ended 30 June 2012 £'000
Sales to third parties	113,852	98,871
Sales within the group	746,322	619,391
	<u>860,174</u>	<u>718,262</u>

### 3. OPERATING PROFIT

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Rentals under operating leases		
- other operating leases	19,725	15,067
Rental income	(397)	(480)
Depreciation – owned assets	7,612	5,299
Consideration for transfer of Skype employees	-	1,034
Consideration for transfer of Yammer employees	637	-
Consideration for transfer of Yammer trade and assets	762	
Foreign exchange (gain) or loss	(61)	138
Auditor's remuneration		
- audit services	98	98
- non-audit services	-	-
	<u>-</u>	<u>-</u>

During the year the company acquired the workforce and transferred assets of Yammer UK a wholly owned subsidiary of Microsoft Corp. The company paid consideration of £0.6m for the workforce and £0.8m for the transferred assets, this represented the value of the net assets acquired and therefore no gain or loss has been recognized on this investment.

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2013

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 30 June 2013 No.	Year ended 30 June 2012 No.
<b>Average number of persons employed (including directors):</b>		
Sales and distribution	2,877	2,720
Administration	148	132
	<u>3,025</u>	<u>2,852</u>

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Staff costs (including directors):</b>		
Wages and salaries	332,042	282,917
Social security costs	34,780	32,157
Pension	24,128	22,231
	<u>390,950</u>	<u>337,305</u>

Only one director (2012 none) 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 (2012 £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 £661k (2012 £nil), company contributions to money purchase pension schemes £17.9k (2012 £nil).

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 2013 there were £2m pension contributions outstanding (2012 none), this is included in creditors.

The share-based payment charge for the year was £31.8m (2012 £28.4m), refer to note 16.

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Interest receivable from parent company	<u>1,873</u>	<u>1,656</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2013

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
United Kingdom corporation tax	18,652	19,701
Adjustment in respect of prior years	(529)	674
Total current tax	18,123	20,375
Deferred tax – current year (note 11)	277	1,419
Deferred tax – prior year adjustment (note 11)	403	(399)
	<u>18,803</u>	<u>21,395</u>

#### Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 23.75% (2012: 25.5%)

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 2013 £'000	Year ended 30 June 2012 £'000
Profit on ordinary activities before tax	69,839	74,524
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.75% (2012: 25.5%)	16,587	19,004
Effects of		
Depreciation on non-qualifying assets	638	276
Permanent adjustments	1,094	1,114
Depreciation in excess of capital allowances	130	(145)
Short-term timing differences	29	(452)
Share schemes	174	(96)
Prior year adjustment	(529)	674
Total current tax charge	<u>18,123</u>	<u>20,375</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 2012, which provides for a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013, was substantively enacted on 3 July 2012. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

The Government intends to enact future reduction in the main tax rate down to 21% effective from 1 April 2014 and to 20% by 1 April 2015. As these tax rates were not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with FRS 21, as it is a non-adjusting event occurring after the reporting period.

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2013

### 7. DIVIDENDS

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Paid – £3,542 per equity ordinary share (2012 £3,168 per equity ordinary share)	53,129	47,514

### 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 2012	26,622	34,909	10,413	71,944
Additions	3,535	7,678	12,397	23,610
Disposals	(684)	(430)	(290)	(1,404)
At 30 June 2013	29,473	42,157	22,520	94,150
<b>Accumulated depreciation</b>				
At 1 July 2012	19,302	29,056	4,145	52,503
Charge for the period	1,869	4,642	1,101	7,612
Disposals	(176)	(388)	(99)	(663)
At 30 June 2013	20,995	33,310	5,147	59,452
<b>Net book value</b>				
At 30 June 2013	8,478	8,847	17,373	34,698
At 30 June 2012	7,320	5,853	6,268	19,441

### 9. DEBTORS

	2013 £'000	2012 £'000
Trade debtors	57,158	48,064
Amounts owed by fellow group undertakings	357,939	302,759
Other debtors	4,387	4,737
Prepayments and accrued income	8,786	8,604
Deferred tax asset (note 11)	11,855	12,535
	440,125	376,699

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 2013

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

	2013 £'000	2012 £'000
Bank overdraft	477	-
Trade creditors	25,580	13,605
Corporation tax	446	2,408
Other creditors	3,129	3,921
Other taxation and social security	20,377	18,637
Accruals and deferred income	166,521	129,949
Amounts owing to fellow group undertakings	-	2,028
	<u>216,530</u>	<u>170,548</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

	2013 £'000	2012 £'000
Depreciation in excess of capital allowances	2,331	2,675
Share-based payments	9,524	9,860
	<u>11,855</u>	<u>12,535</u>

	£'000
Balance at 30 June 2012	12,535
Charged to the profit and loss in the year	(277)
Prior year deferred tax adjustment	(403)
Balance at 30 June 2013	<u>11,855</u>

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 30 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date).

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 2013

### 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 1 July 2012	2,669	825	8,619	12,113
Utilised in the period	(564)	-	-	(564)
Charged to the profit and loss in the period	1,468		1,444	2,912
Released to the profit and loss in the period		(358)		(358)
Balance at 30 June 2013	<u>3,573</u>	<u>467</u>	<u>10,063</u>	<u>14,103</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 £21.83 and the rate of NIC is 13.8%.

### 13. CALLED UP SHARE CAPITAL

	<b>2013</b>	<b>2012</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>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial period	51,036	53,129
Dividends paid	(53,129)	(47,514)
Share-based payment – contribution received	31,784	28,422
Net addition to shareholder's funds	<u>29,691</u>	<u>34,037</u>
<b>Opening shareholder's funds</b>	<u>214,499</u>	<u>180,462</u>
<b>Closing shareholder's funds</b>	<u>244,190</u>	<u>214,499</u>

# MICROSOFT LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 June 2013

### 15. OPERATING LEASE COMMITMENTS

At 30 June 2013 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings	
	2013	2012
	£'000	£'000
Operating leases which expire		
Within 1 year	515	1,526
Between 2 and 5 years inclusive	5,973	6 117
After 5 years	12,274	9,327
	<u>18,762</u>	<u>16,970</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

	2013	2012
Number of share awards	5,054,230	5,116,366
Outstanding at beginning of year	5,116,366	5,114,991
Granted during the year	1,970,249	2,049,922
Forfeited during the year	(555,490)	(665,872)
Exercised during the year	(1,476,895)	(1,382,675)
Expired during the year	-	-
Outstanding at the end of the year	<u>5,054,230</u>	<u>5,116,366</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2013 was \$30.15 (2012: \$26.62).

The unvested awards as at 30 June 2013 had a weighted average remaining contractual life of 3.09 years (2012: 3.23 years).

In both 2013 and 2012 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £38.5m (2012: £35.1m).

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 £28.2m and £26.2m in relation to share award transactions during 2013 and 2012 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 2013**

### **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 £3,147,586 and £1,862,700 related to SPSA transactions during 2013 and 2012 respectively.

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

The company recognised a further £364,569 (2012: £345,113) 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**

In September 2013 Microsoft Corporation announced that it has entered into an agreement whereby Microsoft Corporation will purchase substantially all of Nokia's Devices & Services business, license Nokia's patents, and license and use Nokia's mapping services. It has not yet been determined what, if any, of the trade and assets of Nokia 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.