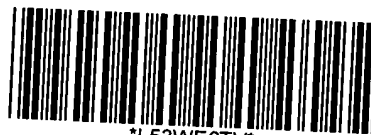


MICROSOFT LIMITED

Report and Financial Statements

Year ended 30 June 2015

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MICROSOFT LIMITED

REPORT AND FINANCIAL STATEMENTS 2015

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MICROSOFT LIMITED

REPORT AND FINANCIAL STATEMENTS 2015

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
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
Chartered Accountant and Statutory Auditor
Cambridge
United Kingdom

MICROSOFT LIMITED

STRATEGIC REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2015.

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 £969m (2014: £916m) with a profit after taxation of £83m (2014: £61m). The majority of turnover comprises commissions from other group companies. In the current year turnover from other group companies increased to £838m from £791m in 2015 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 19% (2014: 14%). 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 £131m (2014: £125m).

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. The legal integration of the UK Nokia business occurred in February 2015, when all UK employees transferred into Microsoft Limited. The trade and assets remain in Microsoft Mobile UK Limited (Previously Nokia UK Ltd). 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 2015, 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

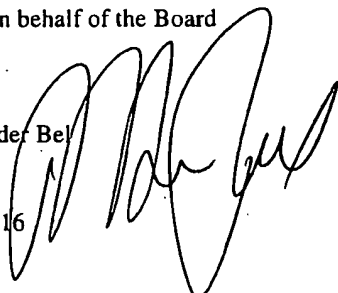
The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. Their performance continues to be strong and there is not considered to be a significant risk to the company's continuing profitability. The company has no significant borrowings or foreign 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.

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

Michel Van der Bel

Director

30 March 2016



MICROSOFT LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2015.

DIVIDENDS

The directors approved a dividend for the year of £224.0m (2014: £51.0m).

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 year 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

30 March 2016

MICROSOFT LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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 2015 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 2015 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.

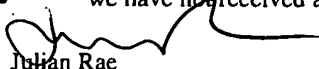
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and 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.


Julian Rae
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge,
United Kingdom
30 March 2016

MICROSOFT LIMITED**PROFIT AND LOSS ACCOUNT**
Year ended 30 June 2015

	Note	2015 £'000	2014 £'000
TURNOVER	2	969,320	915,607
Cost of sales		(107,511)	(104,449)
GROSS PROFIT		861,809	811,158
Distribution costs		(170,013)	(196,003)
Administrative expenses (net)		(594,943)	(534,325)
OPERATING PROFIT	3	96,853	80,830
Interest receivable and similar income	5	2,616	1,654
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		99,469	82,484
Tax on profit on ordinary activities	6	(16,943)	(21,850)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	82,526	60,634

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 2015

	Note	2015 £'000	2014 £'000
FIXED ASSETS			
Tangible assets	8	34,673	37,030
CURRENT ASSETS			
Debtors	9	393,878	487,506
Cash at bank and in hand		4	-
		393,882	487,506
CREDITORS: amounts falling due within one year	10	(234,806)	(223,473)
NET CURRENT ASSETS		159,076	264,033
TOTAL ASSETS LESS CURRENT LIABILITIES		193,749	301,063
Provision for liabilities	12	(15,895)	(14,294)
NET ASSETS		177,854	286,769
CAPITAL AND RESERVES			
Called up share capital	13	15	15
Profit and loss account	14	177,839	286,754
SHAREHOLDER'S FUNDS	14	177,854	286,769

The financial statements of Microsoft Limited, registration number 01624297, were approved and authorised for issue by the Board of Directors on 30 March 2016.

Signed on behalf of the Board of Directors

Michel Van der Bel

MICROSOFT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing.

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

Turnover

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

Turnover includes commission income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred.

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 FINANCIAL STATEMENTS

Year ended 30 June 2015

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 FINANCIAL STATEMENTS

Year ended 30 June 2015

2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the year. 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.

	2015 £'000	2014 £'000
Sales to third parties	130,981	124,765
Sales within the group	838,339	790,842
	<u>969,320</u>	<u>915,607</u>

3. OPERATING PROFIT

	2015 £'000	2014 £'000
Operating profit is stated after charging/(crediting):		
Rentals under operating leases		
- other operating leases	28,464	19,873
Rental income	(1,026)	(163)
Depreciation – owned assets	20,671	13,211
Foreign exchange (gain) or loss	(102)	357
Auditor's remuneration:		
- audit services	<u>104</u>	<u>101</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2015 No.	2014 No.
Average number of persons employed (including directors):		
Sales and distribution	2,940	2,954
Administration	201	187
	<u>3,141</u>	<u>3,141</u>
	2015 £'000	2014 £'000
Staff costs (including directors):		
Wages and salaries	369,605	360,611
Social security costs	38,662	37,475
Pension	30,626	28,826
	<u>438,893</u>	<u>426,912</u>

MICROSOFT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

Only one director (2014: one) received remuneration through the Company. All other directors in the current and prior year received their remuneration from Microsoft Corporation with £nil (2014:£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 £672k (2014: £840k) and company contributions to money purchase pension schemes £22.2k (2014: £19.9k).

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 2015 there were no pension contributions outstanding (2014: £nil).

The share-based payment charge for the year was £32.5m (2014: £33.0m), refer to note 16.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £'000	2014 £'000
Interest receivable from parent company	2,616	1,654

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £'000	2014 £'000
United Kingdom corporation tax	20,577	19,217
Adjustment in respect of prior years	(608)	(370)
Total current tax	19,969	18,847
Deferred tax – current year (note 11)	(2,925)	3,496
Deferred tax – prior year adjustment (note 11)	(101)	(493)
	16,943	21,850

Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.75% (2014: 22.5%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

MICROSOFT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 30 June 2015****6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	99,469	82,484
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.75% (2014: 22.5%)	20,640	18,559
Effects of:		
Depreciation on non-qualifying assets	1,177	747
Permanent adjustments	822	807
Depreciation in excess of capital allowances	1,884	512
Short-term timing differences	(8)	(528)
Share schemes	(3,938)	(880)
Prior year adjustment	(608)	(370)
Total current tax charge	19,969	18,847

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.

7. DIVIDENDS

	2015 £'000	2014 £'000
Paid – £14,930 per equity ordinary share (2014: £3,402 per equity ordinary share)	223,953	51,036

MICROSOFT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

8. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 1 July 2014	30,743	49,689	27,536	107,968
Additions	957	10,042	10,865	21,864
Disposals	(159)	(1,227)	(3,663)	(5,049)
At 30 June 2015	31,541	58,504	34,738	124,783
Accumulated depreciation				
At 1 July 2014	23,216	39,559	8,162	70,937
Charge for the year	4,808	8,231	7,632	20,671
Disposals	(55)	(944)	(499)	(1,498)
At 30 June 2015	27,969	46,846	15,295	90,110
Net book value				
At 30 June 2015	3,572	11,658	19,443	34,673
At 30 June 2014	7,527	10,129	19,374	37,030

9. DEBTORS

	2015 £'000	2014 £'000
Trade debtors	41,839	43,184
Amounts owed by fellow group undertakings	309,813	409,356
Other debtors	9,631	6,265
Prepayments and accrued income	20,716	19,849
Deferred tax asset (note 11)	11,879	8,852
	393,878	487,506

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 FINANCIAL STATEMENTS****Year ended 30 June 2015****10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2015	2014
	£'000	£'000
Bank overdraft	-	723
Trade creditors	21,506	17,953
Corporation tax	2,368	1,655
Other creditors	1,377	1,459
Other taxation and social security	13,457	14,456
Accruals and deferred income	196,098	187,227
	<u>234,806</u>	<u>223,473</u>

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

11. DEFERRED TAX

The deferred tax asset consists of the following amounts:

	2015	2014
	£'000	£'000
Depreciation in excess of capital allowances	4,340	2,441
Share-based payments	7,539	6,411
	<u>11,879</u>	<u>8,852</u>
		£'000
Balance at 30 June 2014		8,852
Charged to the profit and loss in the year		(2,925)
Prior year deferred tax adjustment		102
Balance at 30 June 2015		<u>11,879</u>

The Finance Act 2015, which provides for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2016, to 19% effective from 1 April 2017 and 18% effective from 1 April 2020 was substantively enacted on 8 July 2015. At the Summer Budget 2015 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 FINANCIAL STATEMENTS

Year ended 30 June 2015

12. PROVISIONS FOR LIABILITIES

	Dilapidations	Onerous leases	Other	Total
	£'000	£'000	£'000	£'000
Balance at 1 July 2014	4,067	196	10,031	14,294
Charged to the profit and loss in the year	789	-	836	1,625
Released to the profit and loss in the year	-	(24)	-	(24)
	<u>4,856</u>	<u>172</u>	<u>10,867</u>	<u>15,895</u>
Balance at 30 June 2015	4,856	172	10,867	15,895

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 £27.09 and the rate of NIC is 13.8%.

13. CALLED UP SHARE CAPITAL

	2015	2014
	£'000	£'000
Authorised, called up, allotted and fully paid 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

	2015	2014
	£'000	£'000
Profit for the financial period	82,526	60,634
Dividends paid (note 7)	(223,953)	(51,036)
Share-based payment – contribution received	<u>32,512</u>	<u>32,981</u>
Net reduction in shareholder's funds	(108,915)	42,579
Opening shareholder's funds	<u>286,769</u>	<u>244,190</u>
Closing shareholder's funds	<u>177,854</u>	<u>286,769</u>

MICROSOFT LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 30 June 2015**15. OPERATING LEASE COMMITMENTS**

At 30 June 2015 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	
	2015	2014
	£'000	£'000
Operating leases which expire:		
Within 1 year	4,103	-
Between 2 and 5 years inclusive	1,957	7,528
After 5 years	17,269	12,274
	<u>23,329</u>	<u>19,802</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:

	2015	2014
Number of share awards	4,176,466	4,839,020
Outstanding at beginning of year	4,839,020	5,054,230
Granted during the year	1,435,395	2,093,957
Forfeited during the year	(450,503)	(730,023)
Exercised during the year	(1,647,446)	(1,579,144)
Expired during the year		
Outstanding at the end of the year	<u>4,176,466</u>	<u>4,839,020</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2015 was \$45.33 (2014: \$25.94).

The unvested awards as at 30 June 2015 had a weighted average remaining contractual life of 2.94 years (2014: 3.04 years).

In both 2015 and 2014 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £41.0m (2014: £40.5m).

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 £29.5m and £29.8m in relation to share award transactions during 2015 and 2014 respectively.

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

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NOTES TO THE FINANCIAL STATEMENTS

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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 £2,523,838 and £2,753,063 related to SPSA transactions during 2015 and 2014 respectively.

Employee share purchase plan

The company recognised a further £449,243 (2014: £436,138) 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 immediate parent company and controlling party is Microsoft Luxembourg International SARL. 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.