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**MICROSOFT IRELAND OPERATIONS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FINANCIAL YEAR END 30 JUNE 2011**

Certified to be a true copy of the Auditor's Report, Directors' Report and Balance Sheet as sent to the sole member of the Company in accordance with the European Communities (Single-Member Private Limited Companies) Regulations, 1994.

Thomas Heerey  
Director

For and on behalf of  
**Matsack Trust Limited**  
Secretary  
Duly Authorised

Microsoft Ireland Operations Limited

Reports and Financial Statements  
for the year ended  
30 June 2011

**MICROSOFT IRELAND OPERATIONS LIMITED**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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**MICROSOFT IRELAND OPERATIONS LIMITED**

**DIRECTORS AND OTHER INFORMATION**

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**DIRECTORS**

Benjamin Orndorff (US)  
Keith Dolliver (US)  
Thomas Heerey  
Tracy Neighbors (US)

**SECRETARY AND  
REGISTERED OFFICE**

Matsack Trust Limited,  
70 Sir John Rogerson's Quay,  
Dublin 2.

**INDEPENDENT AUDITOR**

Deloitte & Touche,  
Chartered Accountants and Registered Auditors,  
Deloitte & Touche House,  
Earlsfort Terrace,  
Dublin 2.

**SOLICITORS**

Matheson Ormsby Prentice Solicitors,  
70 Sir John Rogerson's Quay,  
Dublin 2.

**PRINCIPAL BANKERS**

Citi London,  
Citigroup Centre,  
33 Canada Square,  
Canary Wharf,  
London E14 5LB.

Bank of Ireland,  
Global Markets,  
Conville House,  
Talbot Street,  
Dublin 1.

## MICROSOFT IRELAND OPERATIONS LIMITED

### DIRECTORS' REPORT

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The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2011.

#### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity continues to be marketing and selling and distribution of software products.

The company showed strong performance during the year ended 30 June 2011, notwithstanding the continuing challenging economic environment.

#### RESULTS FOR THE YEAR AND DIVIDENDS

The profit for the year after taxation was €516,531,000 (2010: profit of €1,278,565,000).

The company did not pay a dividend in 2011 (2010: €45,169,219).

#### PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

The company is conscious of the economic challenges that continue to prevail. In this environment the company will focus on maintaining a disciplined approach to controlling costs and outperforming competitors in 2012.

As the company operates in numerous currencies, the directors are conscious of the effect of foreign exchange on the company's results. Where deemed necessary, Microsoft Corporation, the ultimate parent undertaking, takes appropriate action to enter into hedging programmes to protect against foreign exchange exposure.

#### BOOKS OF ACCOUNT

The measures that the directors have taken to ensure that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, include the employment of appropriately qualified accounting personnel and the maintenance of appropriate computerised accounting systems. The books of account are located at the company's office at Atrium Building Block B, Carmanhall Road, Sandyford Business Park, Dublin 18.

#### DIRECTORS' AND SECRETARY'S INTEREST IN SHARES

The present directors and secretary are listed on page 2. There have been no changes to the board during the year or since the year end.

The directors of the company and its secretary, who held office at 30 June 2011, had no interests in the shares of the company at that date or at 01 July 2010.

The directors at year end have advised that they held the following shares in the company's ultimate parent company, Microsoft Corporation:

	At 30 June 2011 Number	At 01 July 2010 Number
Benjamin Orndorff	4,839	2,566
Keith Dolliver	58,319	80,856
Thomas Heerey	717	359
Tracy Neighbors	1,650	1,660

**MICROSOFT IRELAND OPERATIONS LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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**SUBSIDIARIES**

A list of the principal subsidiaries at 30 June 2011 is set out in Note 8 to the financial statements.

**SUBSEQUENT EVENTS**

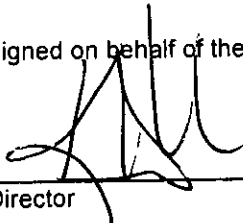
Subsequent to year end a dividend was paid of €4,949,619,939.

Subsequent to year end, litigation commenced against Microsoft Ireland Operations Limited and Microsoft Corporation relating to certain intellectual property rights. The information usually provided is not disclosed on the grounds that it could be expected to prejudice the outcome of the litigation.

**AUDITORS**

The auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Signed on behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

Date: 15 March 2012

## **MICROSOFT IRELAND OPERATIONS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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Irish company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2009. 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 IRELAND OPERATIONS LIMITED

We have audited the financial statements of Microsoft Ireland Operations Limited for the year ended 30 June 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. 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 auditors**

The directors are responsible for preparing the financial statements, as set out in the Statement of Directors' Responsibilities in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the company's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT IRELAND OPERATIONS LIMITED

### Opinion

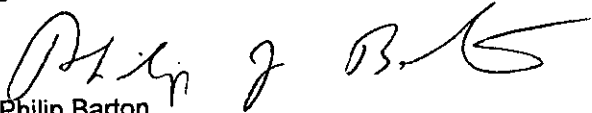
In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the company as at 30 June 2011 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet and its profit and loss account are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 30 June 2011 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.



Philip Barton  
For and on behalf of Deloitte & Touche,  
Chartered Accountants and Registered Auditors,  
Dublin.

Date: 15 March 2012

## MICROSOFT IRELAND OPERATIONS LIMITED

### STATEMENT OF ACCOUNTING POLICIES

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The significant accounting policies adopted by the company are as follows:

#### **BASIS OF PREPARATION**

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2009. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

#### **ACCOUNTING CONVENTION**

The financial statements are prepared under the historical cost convention. The financial statements are denominated in EURO (€).

#### **TURNOVER**

Revenue is recognised when earned. Revenue from corporate license programmes is recorded when the software has been delivered and the customer is invoiced. Revenue from packaged product sales to and through distributors and resellers is recorded when related products are shipped. Maintenance and subscription revenue is recognised rateably over the contract period. Revenue attributable to undelivered elements, including technical support and internet browser technologies, is based on the average sales price of those elements and is recognised rateably on a straight-line basis over the product's life cycle. Costs related to insignificant obligations, which include telephone support for certain products, are accrued. Provisions are recorded for returns, concessions and bad debts where it is reasonably expected that these will occur.

#### **FIXED ASSETS**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on all fixed assets except land and assets under construction, and is calculated on a straight line basis so as to write off their cost over their expected useful lives.

Estimated useful lives are as follows:

Buildings	15 years
Leasehold improvements	5 - 10 years
Computer equipment	1 - 3 years
Furniture & equipment	3 - 5 years

#### **FINANCIAL FIXED ASSETS**

Investments in subsidiary undertakings are carried at cost less provisions for any impairment. Dividends from subsidiary undertakings are recognised in the profit and loss account in the year in which they are declared.

#### **STOCKS**

Stocks are stated at the lower of cost and net realisable value. Cost is calculated at the average standard cost with appropriate adjustments to arrive at the closest possible approximation to actual cost.

Net realisable value is the estimated selling price of stock on hand less all further costs to completion and all costs expected to be incurred in marketing, distribution and selling.

**MICROSOFT IRELAND OPERATIONS LIMITED**

**STATEMENT OF ACCOUNTING POLICIES (CONTINUED)**

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**FOREIGN CURRENCIES**

Foreign currency transactions are translated at the rate of exchange ruling at the date of the transactions or at a contracted rate. The resulting monetary assets and liabilities are translated at the balance sheet rate and the exchange differences are dealt with in the profit and loss account.

**LEASED ASSETS**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

**TAXATION**

The charge for taxation is based on the profit for the year.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent they are regarded as recoverable. These are regarded as recoverable to the extent that, on the basis of all available evidence, it is 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.

**PENSION COSTS**

Retirement benefits to employees are funded by contributions from the company and employees. Payments are made to pension trusts which are financially separate from the company. These payments are charged against the profits of the year in which they become payable. All schemes are defined contributions schemes.

**EQUITY BASED COMPENSATION**

The company has adopted FRS 20 "Share based payment transactions" in respect of share awards granted by the parent company, Microsoft Corporation, to the employees of the company. The estimated fair value of equity-based instruments are recognised as an expense over the vesting period with a corresponding credit to capital contribution reserve. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period and adjusted for the effect of non-market based vesting conditions.

The fair value of share awards is determined on the date of grant, based on the parent company's stock price and less the dividends that will not be received during the vesting period.

**MICROSOFT IRELAND OPERATIONS LIMITED**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	2011 €'000	2010 €'000
<b>TURNOVER</b>	1	13,367,099	11,345,964
Cost of sales		(1,154,321)	(770,866)
<b>GROSS PROFIT</b>		<u>12,212,778</u>	<u>10,575,098</u>
Distribution costs		(46,035)	(60,416)
Administrative expenses		(11,609,817)	(9,127,542)
<b>OPERATING PROFIT</b>		<u>556,926</u>	<u>1,387,140</u>
Interest income	2	26,989	32,376
Distribution from subsidiary undertakings	3	9,100	9,300
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	<u>593,015</u>	<u>1,428,816</u>
Tax on profit on ordinary activities	6	(76,484)	(150,251)
<b>PROFIT FOR THE YEAR</b>	14	<u><u>516,531</u></u>	<u><u>1,278,565</u></u>

All recognised gains and losses for both the current and previous years are included in the profit and loss account and arise from continuing activities.

The financial statements were approved by the Board of Directors on 15 March 2012 and signed on its behalf by:

Director

Director

**MICROSOFT IRELAND OPERATIONS LIMITED**

**BALANCE SHEET  
AS AT 30 JUNE 2011**

	Notes	2011 €'000	2010 €'000
<b>FIXED ASSETS</b>			
Tangible fixed assets	7	377,693	277,340
Financial fixed assets	8	1,749	1,749
		<u>379,442</u>	<u>279,089</u>
<b>CURRENT ASSETS</b>			
Stocks	9	265,608	152,231
Debtors	10	9,403,058	9,751,449
Cash at bank and in hand		18,526	29,051
		<u>9,687,192</u>	<u>9,932,731</u>
<b>CREDITORS: (Amounts falling due within one year)</b>	11	<u>(5,789,839)</u>	<u>(6,567,902)</u>
<b>NET CURRENT ASSETS</b>		<u>3,897,353</u>	<u>3,364,829</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,276,795</u>	<u>3,643,918</u>
<b>CREDITORS: (Amounts falling due after more than one year)</b>	12	<u>(330,981)</u>	<u>(221,148)</u>
<b>NET ASSETS</b>		<u><u>3,945,814</u></u>	<u><u>3,422,770</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	425	425
Other reserves	15	35,270	28,757
Profit and loss account	14	3,910,119	3,393,588
<b>SHAREHOLDERS' FUNDS</b>	16	<u><u>3,945,814</u></u>	<u><u>3,422,770</u></u>

The financial statements were approved by the Board of Directors on 15 March 2012 and signed on its behalf by:

Director

Director

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**1. TURNOVER**

The analysis of turnover by geographical area is as follows:	<b>2011</b> <b>€'000</b>	2010 €'000
<b>Geographical Area:</b>		
Republic of Ireland	151,097	129,406
U.K.	2,116,465	1,810,357
Rest of Europe	9,167,334	7,693,680
Rest of World	1,932,203	1,712,521
	<u>13,367,099</u>	<u>11,345,964</u>

**2. INTEREST INCOME**

	<b>2011</b> <b>€'000</b>	2010 €'000
Net interest income from bank deposits and inter-group loans	26,989	32,376
	<u>26,989</u>	<u>32,376</u>

**3. DISTRIBUTION FROM SUBSIDIARY UNDERTAKINGS**

	<b>2011</b> <b>€'000</b>	2010 €'000
Distribution from subsidiary undertakings	9,100	9,300
	<u>9,100</u>	<u>9,300</u>

**4. PROFIT ON ORDINARY ACTIVITIES  
BEFORE TAXATION**

	<b>2011</b> <b>€'000</b>	2010 €'000
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:		
Directors' emoluments	141	129
Directors' pensions	9	8
Depreciation	59,747	39,002
Rentals payable under operating leases	14,209	24,944
Foreign exchange loss/(gain)	922,092	(812,478)
	<u>922,092</u>	<u>(812,478)</u>
<b>Auditor's remuneration:</b>		
Audit	681	684
Other assurance services	11	22
Tax advisory services	-	-
Other non – audit	-	149
	<u>692</u>	<u>855</u>

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

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**5. STAFF NUMBERS AND COSTS**

The average number of employees, including executive directors, during the year, analysed by category, was as follows:

	<b>2011 Number</b>	<b>2010 Number</b>
Operations and administration	570	587
Sales	91	102
	<u>661</u>	<u>689</u>

	<b>2011 €'000</b>	<b>2010 €'000</b>
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The aggregate payroll costs of those employees were as follows:

Wages and salaries (including stock based compensation)	71,412	71,413
Social welfare	6,729	6,486
Pension costs	4,099	3,771
	<u>82,240</u>	<u>81,670</u>

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>6. TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>2011 €'000</b>	<b>2010 €'000</b>
Corporation tax on the profit for the year on ordinary activities	128,474	149,679
Overprovision in prior years	-	(546)
Deferred taxation (Note 10)	(51,990)	1,118
Corporation tax charge for the year	<u>76,484</u>	<u>150,251</u>

Corporation tax for the year is at a higher rate than the standard rate of Irish corporation tax. The differences are explained below:

	<b>2011 €'000</b>	<b>2010 €'000</b>
Profit on ordinary activities multiplied by average of standard corporation tax rates 2011: 12.5% (2010: 12.5%)	74,127	178,602
<b>Effects of:</b>		
Expenses/(income) not deductible for tax purposes	3,213	(3,848)
Depreciation for year in excess of capital allowances	80	1,699
Interest at a higher tax rate	4,748	5,597
Manufacturing relief	(10,390)	(34,023)
Other	1,808	2,770
Double tax relief	(3,032)	-
Income adjustments	(476)	-
Adjustment to tax charge in respect of previous periods	-	(546)
Other timing differences	6,406	-
Current tax charge for the year	<u>76,484</u>	<u>150,251</u>



MICROSOFT IRELAND OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011

7. TANGIBLE FIXED ASSETS

	Land €'000	Buildings €'000	Leashold Improvements €'000	Computer Equipment €'000	Furniture & Equipment €'000	Total €'000
<b>Cost:</b>						
At 1 July 2010	26,280	228,908	26,607	95,272	43,537	420,604
Additions	-	53,390	-	98,192	9,001	160,583
Disposals	-	-	-	(638)	(965)	(1,603)
At 30 June 2011	<u>26,280</u>	<u>282,298</u>	<u>26,607</u>	<u>192,826</u>	<u>51,573</u>	<u>579,584</u>
<b>Accumulated depreciation:</b>						
At 1 July 2010	-	20,831	21,813	60,715	39,905	143,264
Charge for the year	-	18,810	3,091	34,360	3,486	59,747
Disposals	-	-	-	(409)	(711)	(1,120)
At 30 June 2011	<u>-</u>	<u>39,641</u>	<u>24,904</u>	<u>94,666</u>	<u>42,680</u>	<u>201,891</u>
<b>Net book value:</b>						
At 30 June 2011	<u>26,280</u>	<u>242,657</u>	<u>1,703</u>	<u>98,160</u>	<u>8,893</u>	<u>377,693</u>
At 30 June 2010	<u>26,280</u>	<u>208,077</u>	<u>4,794</u>	<u>34,557</u>	<u>3,632</u>	<u>277,340</u>

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>8.</b>	<b>FINANCIAL FIXED ASSETS</b>	Shares in subsidiary undertakings €'000
	At 30 June 2010 and 30 June 2011	1,749

Details of subsidiary undertakings are as follows:

Name and registered office	Country of Incorporation	Details of investment	Proportion held	Principal activity
Microsoft Finance Company Limited 70 Sir John Rogerson's Quay Dublin 2	Republic of Ireland	1,000,000 Ordinary Shares of \$1 each	100%	Non-trading
Visio International Limited 70 Sir John Rogerson's Quay Dublin 2	Republic of Ireland	180,002 Ordinary Shares of €1.269738 each	100%	Non-trading
Microsoft Luxembourg SARL Luxembourg	Luxembourg	500 Ordinary Shares of €99.40 each	100%	Online Services Company
Microsoft B.V. Naritaweg 165 1043 BW Amsterdam Netherlands	Netherlands	1 Ordinary Share of \$100 each	100%	Data Services Company

The company is exempt under Regulation 8 of the European Communities (Companies: Group Accounts) Regulations, 1992 from the requirement to prepare consolidated financial statements.

<b>9.</b>	<b>STOCKS</b>	<b>2011</b> <b>€'000</b>	<b>2010</b> <b>€'000</b>
	Raw materials and consumables	37,177	43,356
	Finished goods and goods for resale	228,431	108,875
		<u>265,608</u>	<u>152,231</u>

The replacement cost of stocks did not differ significantly from the figures shown above.

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>10. DEBTORS</b>	<b>2011</b>	<b>2010</b>
	<b>€'000</b>	<b>€'000</b>
<b>Amount receivable within one year:</b>		
Trade debtors	2,821,427	2,680,268
Prepayments and accrued income	144,270	156,583
VAT receivable	51,150	44,810
Deferred taxation	52,633	643
Amounts owed by group undertakings	6,333,078	6,858,315
	<u>9,402,558</u>	<u>9,740,619</u>
<b>Amount receivable after more than one year:</b>		
Prepayments and accrued income	500	10,830
	<u>9,403,058</u>	<u>9,751,449</u>
<b>Deferred taxation</b>		<b>€'000</b>
At 30 June 2010		643
Charged to the profit and loss account (Note 6)		51,990
<b>At 30 June 2011</b>		<u>52,633</u>

The deferred tax asset arises as a result of a difference in the timing of when items are recognized in the profit and loss compared to when they are recognised for tax purposes.

<b>11. CREDITORS: (Amounts falling due within one year)</b>	<b>2011</b>	<b>2010</b>
	<b>€'000</b>	<b>€'000</b>
Trade creditors	36,737	25,051
Amounts owed to group undertakings	1,459,943	2,650,391
Taxation and social welfare	89,412	59,645
Accruals and deferred income	4,203,747	3,832,815
	<u>5,789,839</u>	<u>6,567,902</u>

The amount due in respect of taxation and social welfare is comprised as follows:

	<b>2011</b>	<b>2010</b>
	<b>€'000</b>	<b>€'000</b>
Corporation tax	54,186	49,743
PAYE/PRSI	2,091	1,665
VAT payable	33,135	8,237
	<u>89,412</u>	<u>59,645</u>

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>12. CREDITORS: (Amounts falling due after more than one year)</b>	<b>2011 €'000</b>	<b>2010 €'000</b>
Product warranty	8,216	1,706
Unearned revenue	322,765	219,442
	<u>330,981</u>	<u>221,148</u>
<b>13. SHARE CAPITAL</b>	<b>2011 €'000</b>	<b>2010 €'000</b>
<b>Authorised:</b>		
500,000 ordinary shares of €1.27 each	635	635
	<u>635</u>	<u>635</u>
<b>Allotted, called-up and fully paid:</b>		
335,000 ordinary shares of €1.27 each	425	425
	<u>425</u>	<u>425</u>
<b>14. PROFIT AND LOSS ACCOUNT</b>	<b>2011 €'000</b>	<b>2010 €'000</b>
Opening balance	3,393,588	2,160,192
Profit for the year	516,531	1,278,565
Dividend declared	-	(45,169)
	<u>3,910,119</u>	<u>3,393,588</u>

In 2011, the company has not declared or paid a dividend (2010: €134.83 per ordinary share).

**15. RESERVES**

	<b>Other Reserves €'000</b>	<b>Profit and loss account €'000</b>	<b>Total €'000</b>
At beginning of year	28,757	3,393,588	3,422,345
Profit for the year	-	516,531	516,531
Movement in capital contribution (Note 17)	6,513	-	6,513
	<u>35,270</u>	<u>3,910,119</u>	<u>3,945,389</u>

The movement in capital contribution relates to share awards for 2011 of €6,512,799.

**MICROSOFT IRELAND OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011**

16. RECONCILIATION TO SHAREHOLDERS' FUNDS	2011 €'000	2010 €'000
Profit for the financial year	516,531	1,278,565
Dividend declared (Note 14)	-	(45,169)
Net change in shareholders' funds	<u>516,531</u>	<u>1,233,396</u>
Opening shareholders' funds	3,422,770	2,183,078
Movement in capital contribution (Note 17)	6,513	6,296
Closing shareholders' funds	<u><u>3,945,814</u></u>	<u><u>3,422,770</u></u>

**17. SHARE AWARDS**

We measure the fair value of Share Awards (SA) based on the market price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends of Microsoft Corporation. SA's are amortised over their applicable vesting period (generally three to five years) using the straight line method. The fair value of each award grant is estimated on the date of grant using the following assumptions:

	2011	2010	2009
Dividends per share (quarterly amounts)	\$0.13-\$0.16	\$0.13	\$0.11-\$0.13
Interest rate range	1.1% - 2.4%	2.1% - 2.9%	1.4% - 3.6%

The following activity occurred under our existing plans:

	2011		2010	
	Shares 2011 (000's)	Weighted Average grant date fair value €	Shares 2010 (000's)	Weighted Average grant date fair value €
Non-vested balance at beginning of year	1,310	17.71	1,164	18.51
Granted during the year	562	16.42	503	16.76
Vested during the year	(359)	18.51	(319)	18.24
Forfeited during the year	(51)	17.75	(38)	18.02
Non-vested balance at end of year	<u>1,462</u>	<u>17.47</u>	<u>1,310</u>	<u>17.71</u>

During the 12 months ended 30 June 2011, 30 June 2010 and 30 June 2009, the following activity occurred under our plans:

	2011	2010	2009
Stock awards granted	562	503	436
Weighted average grant date fair value	€16.42	€16.76	€17.98

The charge arising in the profit and loss account for share awards during the year was €6,512,799 (2010: €6,296,175).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2011

18. COMMITMENTS

(i) Capital commitments

Future capital expenditure approved by the directors but not provided for in these financial statements is as follows:

	2011 €'000	2010 €'000
Capital expenditure commitments	90,168	62,998

(ii) Lease commitments

Obligations under operating leases:

	2011 Leased Buildings €'000	2011 Other €'000	2010 Leased Buildings €'000	2010 Other €'000
Annual commitments existing at the balance sheet date in respect of operating leases expiring:				
Within 1 year	454	-	860	10
In 2-5 years (inclusive)	-	7	8,945	-
Over 5 years	6,516	-	6,637	-
	<u>6,970</u>	<u>7</u>	<u>16,442</u>	<u>10</u>

19. PENSION COSTS

Pensions for all eligible employees are funded through a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund, for the benefit of employees and their dependants. The charge for the year represents contributions payable to the fund and amounted to €4,098,971 (2010: €3,771,254). Included in accruals in 2011 is €716,409 payable to the fund (2010: €192,619).

20. SUBSEQUENT EVENTS

Subsequent to year end a dividend was paid of €4,949,619,939.

Subsequent to year end, litigation commenced against Microsoft Ireland Operations Limited and Microsoft Corporation relating to certain intellectual property rights. The information usually provided is not disclosed on the grounds that it could be expected to prejudice the outcome of the litigation.

21. RELATED PARTY TRANSACTIONS

The company has availed of the exemption contained in Financial Reporting Standard 8 from disclosure of intra-group related party transactions.

**22. CASH FLOW STATEMENT**

In accordance with Financial Reporting Standard 1, a cash flow statement has not been prepared for the company as the cash flow of the group is disclosed in the consolidated financial statements of the ultimate holding company, Microsoft Corporation.

**23. ULTIMATE PARENT UNDERTAKING AND PARENT UNDERTAKINGS OF LARGER GROUPS**

The company's ultimate parent undertaking is Microsoft Corporation, incorporated in the United States of America. The largest and smallest group in which the results of the company are consolidated is that headed by Microsoft Corporation. The consolidated financial statements of Microsoft Corporation are available at One Microsoft Way, Redmond, Washington 98052 – 6399.