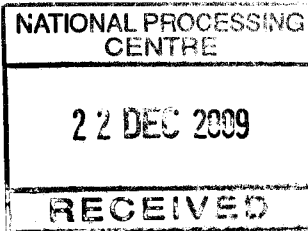




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MICROSOFT NEW ZEALAND LIMITED

**Annual Report
for the Year Ended 30 June 2009**



**MICROSOFT NEW ZEALAND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2009**

In accordance with Section 208 of the Companies Act 1993, The Board of Directors present their annual report including financial statements of the company for the year ended 30 June 2009.

Shareholders have unanimously agreed to exempt the requirements of paragraphs (a) and (e) to (j) of Section 211 of the Companies Act 1993.

**DIRECTOR'S RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009**

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Microsoft New Zealand Limited as at 30 June 2009 and the results of operations for the year ended 30 June 2009.

The Directors consider that the financial statements of the company have been prepared using accounting policies appropriate to the company circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

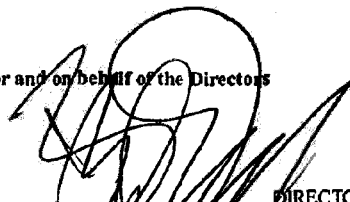
The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

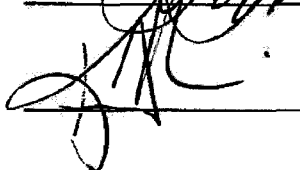
The Directors have approved and are pleased to present the financial statements of Microsoft New Zealand Limited, comprising pages 4 to 16, for the year ended 30 June 2009.

This annual report is dated ^{Dec 18} 2009 and is signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors



DIRECTOR



DIRECTOR

Deloitte

AUDIT REPORT TO THE SHAREHOLDERS OF MICROSOFT NEW ZEALAND LIMITED

We have audited the financial statements on pages 4 to 17. The financial statements provide information about the past financial performance of Microsoft New Zealand Limited and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 6 to 10.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders 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's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the company as at 30 June 2009 and the results of operations for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. 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 obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in Microsoft New Zealand Limited.


Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Microsoft New Zealand Limited as far as appears from our examination of those records; and
- the financial statements on pages 4 to 17:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the financial position of Microsoft New Zealand Limited as at 30 June 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 18 December 2009 and our unqualified opinion is expressed as at that date.


Chartered Accountants
Auckland, New Zealand

MICROSOFT NEW ZEALAND LIMITED**Balance Sheet**

As at 30 June 2009

	Note	2009 NZ\$	2008 NZ\$
Current Assets			
Cash and cash equivalents	6	85,166	6,859,427
Trade and other receivables	7	<u>25,315,678</u>	<u>24,300,231</u>
Total Current Assets		<u>25,400,844</u>	<u>31,159,658</u>
Non-Current Assets			
Property, plant and equipment	8	<u>1,468,133</u>	<u>2,548,991</u>
Total Non-Current Assets		<u>1,468,133</u>	<u>2,548,991</u>
Total Assets		<u>26,868,977</u>	<u>33,708,649</u>
Current Liabilities			
Trade payables		832,172	1,169,819
Other payables and accruals	9	1,325,069	2,268,101
Provisions	10	7,109,190	6,941,053
Current tax payable		350,062	1,025,489
Deferred income		<u>3,504,205</u>	<u>2,688,274</u>
Total Current Liabilities		<u>13,120,698</u>	<u>14,092,736</u>
Non-Current Liabilities			
Provisions	10	<u>694,361</u>	<u>526,736</u>
		<u>694,361</u>	<u>526,736</u>
Total Liabilities		<u>13,815,059</u>	<u>14,619,472</u>
Net Assets		<u>13,053,918</u>	<u>19,089,177</u>
Equity			
Share Capital	11	200,000	200,000
Retained Earnings	11	<u>12,853,918</u>	<u>18,889,177</u>
Total Equity		<u>13,053,918</u>	<u>19,089,177</u>

The notes on Pages 6 to 16 form part of and are to be read in conjunction with these financial statements.

MICROSOFT NEW ZEALAND LIMITED
Income Statement
For the year ended 30 June 2009

	Note	2009 NZ\$	2008 NZ\$
Revenue		67,847,557	68,459,116
Interest Revenue		<u>1,110,919</u>	<u>1,013,925</u>
Total Operating Revenue		<u>68,958,476</u>	<u>69,473,041</u>
Other Income	2	(9,685)	117,689
Expenses:			
Consulting Expenses		2,409,594	2,636,782
Marketing expenses		9,709,698	12,067,943
Occupancy expenses		2,588,649	2,434,013
Administration expenses	3	43,723,443	38,898,429
Finance expenses		10,841	7,569
Other expenses		2,007,675	2,284,916
Profit before income tax expense	4	<u>8,518,259</u>	<u>11,025,701</u>
Income tax expense	5	<u>3,833,277</u>	<u>4,553,778</u>
Profit for the year		<u>4,684,982</u>	<u>6,471,923</u>

MICROSOFT NEW ZEALAND LIMITED
Statement of Recognised Income and Expense
For the year ended 30 June 2009

	2009 NZ\$	2008 NZ\$
Profit for the year	<u>4,684,982</u>	<u>6,471,923</u>
Total recognised income and expense for the year	<u>4,684,982</u>	<u>6,471,923</u>

The notes on Pages 6 to 16 form part of and are to be read in conjunction with these financial statements.

MICROSOFT NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 2009

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

Microsoft New Zealand Limited ("the company") is a profit-oriented company incorporated and domiciled in New Zealand. The parent and ultimate parent of the company is Microsoft Corporation, Redmond, Washington, USA.

The principal activities of the company involve the marketing of a wide range of software for business and professional use, including operating systems, languages, applications, books, hardware and CD-ROM products for the microcomputer marketplace in New Zealand.

The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and the Companies Act 1993.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

The presentation currency is New Zealand dollars.

The company qualifies for differential reporting exemptions as it does not have public accountability, and there is no separation between the owners and the company's governing body. Accordingly, it has taken advantage of all differential reporting exemptions allowed under the framework for differential reporting except for NZ IAS 18: Revenue.

The financial statements of the company are for the year ended on 30 June 2009 and were authorised for issue by the Directors on 13th Dec 09

Basis of Preparation

The financial statements have been prepared on the basis of historical cost except for Share based payments which are carried at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The functional and presentation currency is New Zealand dollars (NZD).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2009, and the comparative information presented in these financial statements for the year ended 30 June 2008.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

MICROSOFT NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
For the Year Ended 30 June 2009

SUMMARY OF ACCOUNTING POLICIES cont.

(a) Employee Benefits (cont.)

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

Defined Contribution Plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(b) Foreign Currency Transactions

All foreign currency transactions during the year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise.

(c) Goods & Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

(d) Impairment of Assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(e) Share capital

Ordinary Shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

MICROSOFT NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
For the Year Ended 30 June 2009

SUMMARY OF ACCOUNTING POLICIES cont.

(f) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

The taxes payable method is adopted so no provision is made for deferred tax or future income tax benefits in the current year.

Current tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the current tax is also recognised directly in equity.

(g) Leased Assets

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease Incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are added to the carrying value of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged over the estimated useful life to the income statement. The residual value of assets is reassessed annually. The following estimated useful lives have been used:

- | | |
|--------------------------|------------------------|
| • EDP Equipment | 20 – 33% straight line |
| • Furniture and Fittings | 33.33% straight line |
| • Leasehold Improvements | Over term of lease |
| • Office Equipment | 20% straight line |

(i) Intangible Assets

Research & Development Costs

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

MICROSOFT NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
For the Year Ended 30 June 2009

SUMMARY OF ACCOUNTING POLICIES cont.

(j) Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(k) Revenue Recognition

Commission Revenue

Commission revenue is earned from the parent company sales of products in the New Zealand market and is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date.

Interest Revenue

Interest revenue is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

MICROSOFT NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
For the Year Ended 30 June 2009

SUMMARY OF ACCOUNTING POLICIES cont.

(l) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of fair value of equity-settled share-based transactions are set out in note 17.

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, based on the Company's estimate of equity instruments that will eventually vest.

At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest.

The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that were unvested as of 1 July 2006. No amount has been recognised in the financial statements in respect of equity-settled share-based payments which vested prior to 1 July 2006.

(m) Financial Instruments

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liability.

(n) Changes in Accounting Policies

There have been no significant changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

2. Other Income	2009	2008
	NZ\$	NZ\$
Other Misc (Income)/Expense	(9,685)	117,689
	<u>(9,685)</u>	<u>117,689</u>
3. Administration Expenses	2009	2008
	NZ\$	NZ\$
Employee benefits:		
Salary and wage expense	25,183,896	22,995,223
Employee Share-based payment schemes expense (note 17)	2,208,008	1,338,797
Other employee benefits	12,525,200	10,114,521
Other Staff expenses	2,649,876	3,762,824
Total employee benefits	<u>42,566,980</u>	<u>38,211,365</u>
Other Office Expenses	1,156,463	687,064
	<u>43,723,443</u>	<u>38,898,429</u>
4. Profit for the year	2009	2008
	NZ\$	NZ\$
Profit before income tax has been arrived at after charging the following expenses and losses from operations:		
Bad and doubtful debts expense	60,290	7,127
Loss on disposal of property, plant and equipment	141	-
Net foreign exchange losses	23,876	98,214
Donations	195,556	516
Research and development expenditure	12,646	1,364
Operating lease rental expenses	2,588,649	2,434,013
Other operating expenses including Professional and Legal fees	334,708	350,062
Depreciation EDP equipment	374,157	630,754
Depreciation Furniture and fittings	321,745	424,281
Depreciation Leasehold improvements	675,052	763,881
Depreciation Office equipment	9,504	8,718

No fees paid to auditors are included in expense balances as all audit fees are paid by the parent company, Microsoft Corporation, USA.

5. Income Taxes	2009	2008
	NZ\$	NZ\$
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Current tax expense	3,815,535	4,285,322
Under/(over) provision in previous years	17,742	268,456
Total tax expense	<u>3,833,277</u>	<u>4,553,778</u>

Income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from operations	<u>8,518,259</u>	<u>11,025,701</u>
Income tax expense calculated at 30% (33% for 2008)	2,555,478	3,638,481
Revenue exempt from tax	-	-
Change in provisions (temporary difference)	580,261	164,163
Non-deductible expenses - share-based payments	662,402	441,803
Non-deductible expenses - other	17,394	40,875
Under/(over) provision in previous years	17,742	268,456
	<u>3,833,277</u>	<u>4,553,778</u>

The Corporate income tax rate in New Zealand was changed from 33% to 30% with effect from 1st July 2008

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

5. Income Taxes (cont)	2009	2008
	NZ\$	NZ\$
(b) Imputation Credit Account Balance		
Balance at beginning of year	(13,116,768)	(10,770,617)
Taxation paid	(2,228,191)	(2,346,151)
Attached to dividends paid	3,259,223	
Balance at end of the year	<u>(12,085,736)</u>	<u>(13,116,768)</u>
6. Cash and cash equivalents		
	2009	2008
	NZ\$	NZ\$
Cash at bank and on hand	85,166	6,859,427
	<u>85,166</u>	<u>6,859,427</u>
7. Trade and other receivables		
	2009	2008
	NZ\$	NZ\$
Trade receivables	3,691,921	3,509,848
Intercompany Receivables	9,663,609	6,539,543
Intercompany deposits held by Group	11,138,274	13,877,567
Allowance for doubtful debts	(28,369)	(20,730)
Goods and Services Tax (GST) receivable	-	193,960
Prepayments	143,005	163,860
Other receivables	707,238	36,184
	<u>25,315,678</u>	<u>24,300,231</u>

The allowance for doubtful debts in relation to trade receivables is provided for based on estimated irrecoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. In the current year the Company has recognised a loss of \$60,290 in respect of bad and doubtful debts (2008: \$7,127). This is recorded within 'other expenses' in the income statement.

8. Property, plant and equipment	2009	2008
	NZ\$	NZ\$
EDP equipment at cost	1,950,578	2,826,983
Accumulated depreciation	(1,912,651)	(2,667,095)
	<u>37,927</u>	<u>159,888</u>
Furniture and fittings at cost	1,395,374	1,354,510
Accumulated depreciation	(1,334,269)	(1,012,524)
	<u>61,105</u>	<u>341,986</u>
Leasehold improvements at cost	4,029,444	4,029,444
Accumulated depreciation	(2,663,569)	(1,988,517)
	<u>1,365,875</u>	<u>2,040,927</u>
Office equipment at cost	54,708	122,016
Accumulated depreciation	(51,482)	(115,826)
	<u>3,226</u>	<u>6,190</u>
Net book value of property, plant and equipment	<u>1,468,133</u>	<u>2,548,991</u>

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

9. Other Payables and Accruals

	2009	2008
	NZ\$	NZ\$
Vendor accruals	1,128,062	2,089,019
Employee deduction for stock (ESPP)	91,798	84,015
Workmen compensation (ACC Levy)	78,903	95,066
Goods and Services Tax (GST) payable	26,306	-
	<u>1,325,069</u>	<u>2,268,101</u>

The average credit period on purchases is 30 days. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe

10. Provisions

	2009	2008
	NZ\$	NZ\$
Employee Benefits		
Current	7,109,190	6,941,053
Non Current	694,361	526,736
	<u>7,803,551</u>	<u>7,467,789</u>

All leave liability above 20 days have been considered as Non-current

11. Capital and reserves

Reconciliation of movement in capital and reserves

	Share Capital	Retained Earnings	Total Equity
	NZ\$	NZ\$	NZ\$
Balance at 1 July 2007	200,000	11,078,457	11,278,457
Total recognised income and expense	-	6,471,923	6,471,923
Contribution from parent	-	1,338,797	1,338,797
Dividends to shareholders (ordinary)	-	-	-
Dividends to shareholders (supplementary)	-	-	-
Foreign investor tax credit	-	-	-
Balance at 30 June 2008	<u>200,000</u>	<u>18,889,177</u>	<u>19,089,177</u>
	NZ\$	NZ\$	NZ\$
Balance at 1 July 2008	200,000	18,889,177	19,089,177
Total recognised income and expense	-	4,684,982	4,684,982
Contribution from parent	-	2,208,008	2,208,008
Dividends to shareholders (ordinary)	-	(12,928,249)	(12,928,249)
Dividends to shareholders (supplementary)	-	(2,281,456)	(2,281,456)
Foreign investor tax credit	-	2,281,456	2,281,456
Balance at 30 June 2009	<u>200,000</u>	<u>12,853,918</u>	<u>13,053,918</u>

At 30 June 2009 share capital comprised 200,000 ordinary shares (2008: 200,000).

All issued shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, and rank equally with regards to the Company's residual assets.

Contributions received from the parent relate to share-based payments received by Microsoft New Zealand Limited employees from Microsoft Corporation USA (parent) in return for services provided to Microsoft New Zealand Limited.

The cost of these services provided to Microsoft New Zealand Limited is included in administrative expenses in the income statement, with a corresponding increase recognised in equity as a capital contribution from the parent in accordance with NZ IFRIC 11.

12. Operating Lease Commitments

	2009	2008
	NZ\$	NZ\$
Non-cancellable operating lease payments		
Not later than one year	1,919,479	1,857,449
Later than one year and not later than five years	7,427,225	6,561,644
Later than five years	1,910,049	3,629,899
	<u>11,256,753</u>	<u>12,048,992</u>

Lease for Wellington expires on 29.09.2009. Renewal lease is for 3 years with 4% increase in rent at time of renewal only.

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

13. Contingent liabilities and commitments

Contingent liabilities

The Company has a contingent liability in respect of the Accident Compensation Corporation's residual claims levy. The levy will be payable annually from May 1999 for up to 15 years. The future liability is a function of ACC's unfunded liability for past claims and future payments to employees by the Company.

There were no other contingencies at 30 June 2009 (2008: \$nil).

Commitments

There were no capital commitments at 30 June 2009 (2008 : \$nil).

14. Related party disclosures

Identity of related parties

The Company has a related party relationship with its parent entity, and other Microsoft group entities.

Transactions with the parent during the year include receipt of research and development commission income.

Transactions with other group entities include market development income, services income, interest income, and consulting commission.

No related party debts were written off or forgiven during the year. All debt and advances are non interest bearing and repayable on demand.

	2009	2008
	NZ\$	NZ\$
Transactions during the year:		
Parent		
- Research & development commission	674,988	153,728
Other group entities		
- Market development income	48,242,446	49,370,013
- Services income	4,128,628	4,682,629
- Consulting commission	295,975	483,944
- Interest income	1,097,910	838,597
	<u>54,439,947</u>	<u>55,528,909</u>
Outstanding balances:		
Parent		
Other group entities		
- Trade payables	1,928	25,831
- Trade receivables	20,801,883	20,417,110

15. Subsequent Events

There were no events subsequent to balance date.

16. Financial assets and liabilities

	2009	2008
	NZ\$	NZ\$
Financial assets		
Cash and cash equivalents	85,166	6,859,427
Trade receivables	24,465,435	23,906,228
	<u>24,550,601</u>	<u>30,765,655</u>
Financial liabilities		
Trade payables	832,172	1,169,819
Other payables and accruals	1,325,069	2,268,101
Employee Benefits	7,803,551	7,467,789
	<u>9,960,792</u>	<u>10,905,710</u>

All financial assets are classified as loans and receivables and all financial liabilities are classified as financial liabilities measured at amortised cost.

Capital risk management

The Company funds its capital requirements through retained earnings to ensure that it will be able to continue as a going concern. The capital structure of the company consists of cash and cash equivalents, equity (including share capital and retained earnings) as per note 12. There are no externally imposed capital requirements on the company.

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

17. Employee-share based payments

Microsoft New Zealand employees have been granted share-based compensation by Microsoft Corporation USA (parent) through the following three schemes:

a) Stock Awards

Stock Awards ("SAs") are grants that entitle the holder to shares of common stock in Microsoft Corporation USA as the award vests.

Stock Awards are granted to employees upon commencement of employment with Microsoft New Zealand Limited, with Awards vesting over a five year period. Employees vest 20% of the Award in each year of service to Microsoft New Zealand Limited.

The number of stock awards is as follows:

Stock Awards	Shares 2009	Shares 2008
Non-Vested Balance at 1 July	113,080	87,290
Granted during financial year	71,855	62,174
Vested during financial year	(31,338)	(23,773)
Forfeited during financial year	(5,967)	(15,044)
Transfers	(7,559)	2,433
Non-Vested Balance at 30 June	140,071	113,080

The fair value determined at the grant date of the Stock Awards is expensed on a straight-line basis over the vesting period (5 years), based on the Company's estimate of equity instruments that will eventually vest.

The fair value of stock awards has been determined as follows:

In calculating the present value the US risk free interest rate has been utilized. Microsoft Corporation has deemed it appropriate to utilise the US risk free rate in determining the present value of dividends not yet received on a global basis. The US risk free rate is in line with LIBOR rates, which are widely used throughout the world as a reference rate for financial instruments.

As holders of Stock Awards are not entitled to dividends during the vesting period, the discounted present value of the expected dividends that will be forgone during the expected life of the Stock Awards are deducted from the fair value of the Awards.

The time value of money component for a dividend paying stock equals the discounted present value of the expected interest income that could be earned less the forfeiture rate of 17% (18% : 2009) has been used based on 3 full years of historical forfeiture data.

The fair value of each award grant is estimated on the date of grant using the following assumptions:

	2009	2008
Dividend per Share (quarterly amounts)	US 13 cents	US 11 cents
Interest rates range (US risk free rate)	3.10%	4.25%

Employee Expenses

The total expense recognised for the 2009 financial year arising from stock awards is \$2,138,525 (2008 : \$1,286,503). This amount is included within administration expenses' in the income statement.

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

17. Employee Share-based Compensation (cont.)

b) Employee Stock Purchase Plan (ESPP)

This Plan provides eligible employees with the opportunity to purchase shares in Microsoft Corporation USA at 90% of the Fair Market Value of the stock on the last day of each three-month period.

Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period.

There is no vesting period and there are no restrictions on the resale of shares.

Employee Expenses

The total expense recognised for the 2009 financial year arising from the ESPP plan is \$69,483 (2008 : \$50,261). This amount is included within 'administration expenses' in the income statement.

c) Stock Options

In previous financial years, incentive Stock Options were granted to employees of Microsoft New Zealand under Microsoft Corporation's employee stock plans.

Options granted between 1995 and 2001 generally vest over four and one-half years and expire seven years from the date of grant. Options granted after 2001 vest over four and one-half years and expire ten years from the date of grant. No Stock Options were granted to employees in the financial year ending 30 June 2004.

From the 2004 financial year, Microsoft Corporation began granting employees Stock Awards rather than Stock Options as part of their equity compensation plans.

Employee Expenses

The total expense recognised for the 2009 financial year arising from share options is \$0 (2008: \$2,033). This amount is included within 'administration expenses' in the income statement.

As of 30 June 2009, there were no unrecognised compensation costs related to share options.

MICROSOFT NEW ZEALAND LIMITED
Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2009

19. Directory

Company Number:
510446

Registered Office:
Level 5, 22 Viaduct Harbour Avenue
Auckland 1010
New Zealand

Directors:
Keith Dolliver
Benjamin Orndorff

Auditor:
Deloitte

Solicitors:
Chapman Tripp

Bankers:
Citibank