

MICROSOFT RESEARCH LIMITED

Report and Financial Statements

52 weeks ended 29 June 2001

Presented for filing by -

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SOLICITORS**

Ref: Smg/98-29382

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Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA**



MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Professor R Needham
K J Fay (appointed 31 January 2001)
J A Seethoff (appointed 31 January 2001)
J Connors (resigned 31 January 2001)
R A Eshelman (resigned 31 January 2001)
G Maffei (resigned 31 January 2001)

SECRETARY

R B Secretariat Limited
Beaufort House
Tenth Floor
15 St Botolph Street
London
EC3A 7EE

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

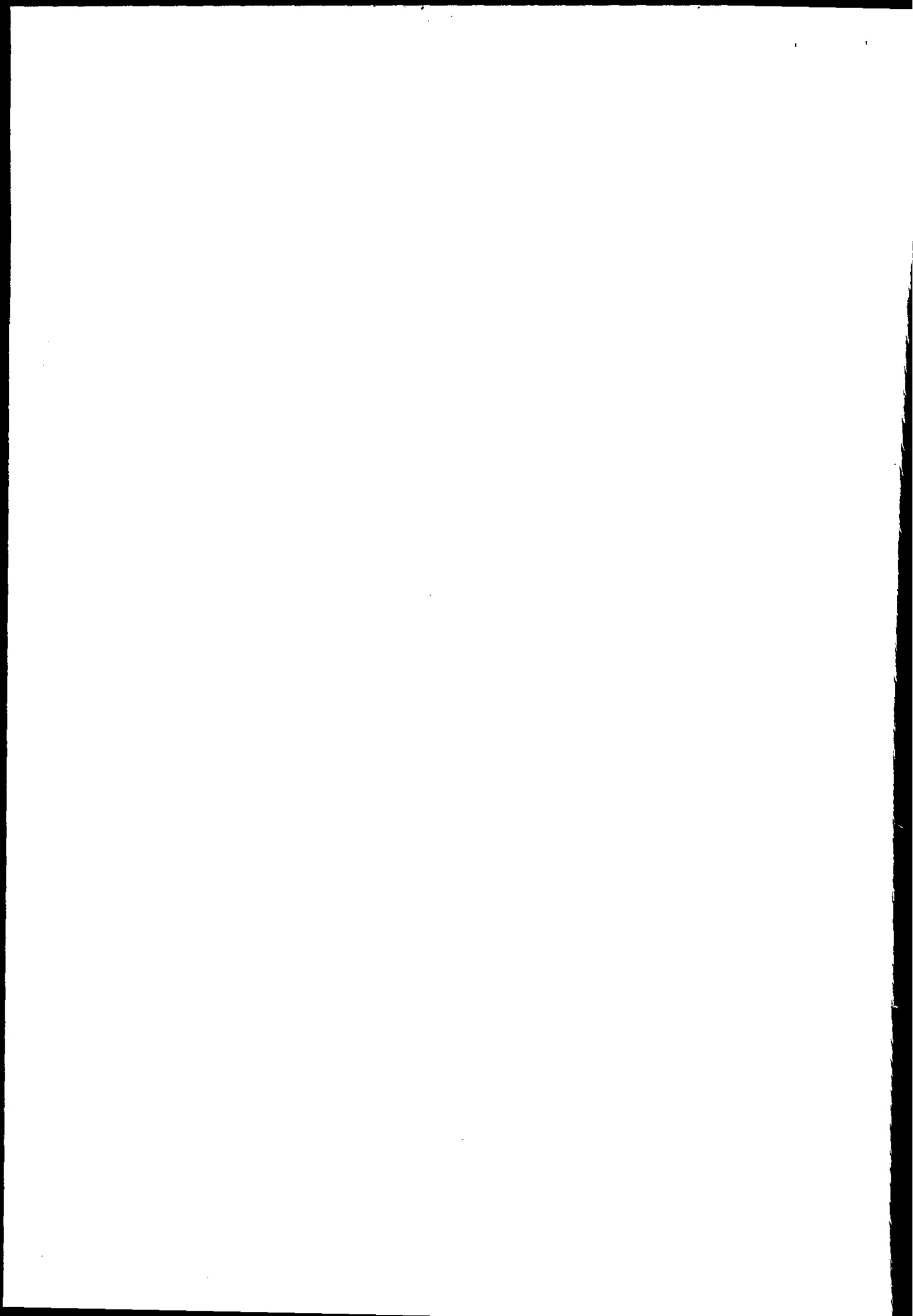
National Westminster Bank Plc	Citibank NA
12 High Street	336 The Strand
Windsor	London
Berkshire	WC2R 1HB
SL4 1LQ	

SOLICITORS

Richards Butler	Hewitson Becke & Shaw
Beaufort House	Shakespeare House
Tenth Floor	42 Newmarket Road
15 St Botolph Street	Cambridge
London	CB5 8EP
EC3A 7EE	

AUDITORS

Deloitte & Touche
Chartered Accountants
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA



MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 29 June 2001.

ACTIVITIES

Microsoft Research Limited is engaged in computer science research.

REVIEW OF RESULTS AND FUTURE PROSPECTS

The results for the year are shown on page 5. The directors feel that this leaves them in a sound position for the coming year.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are shown on page 1. None of the directors had any interest in the shares of the company or any other group company within the UK at any point during the period.

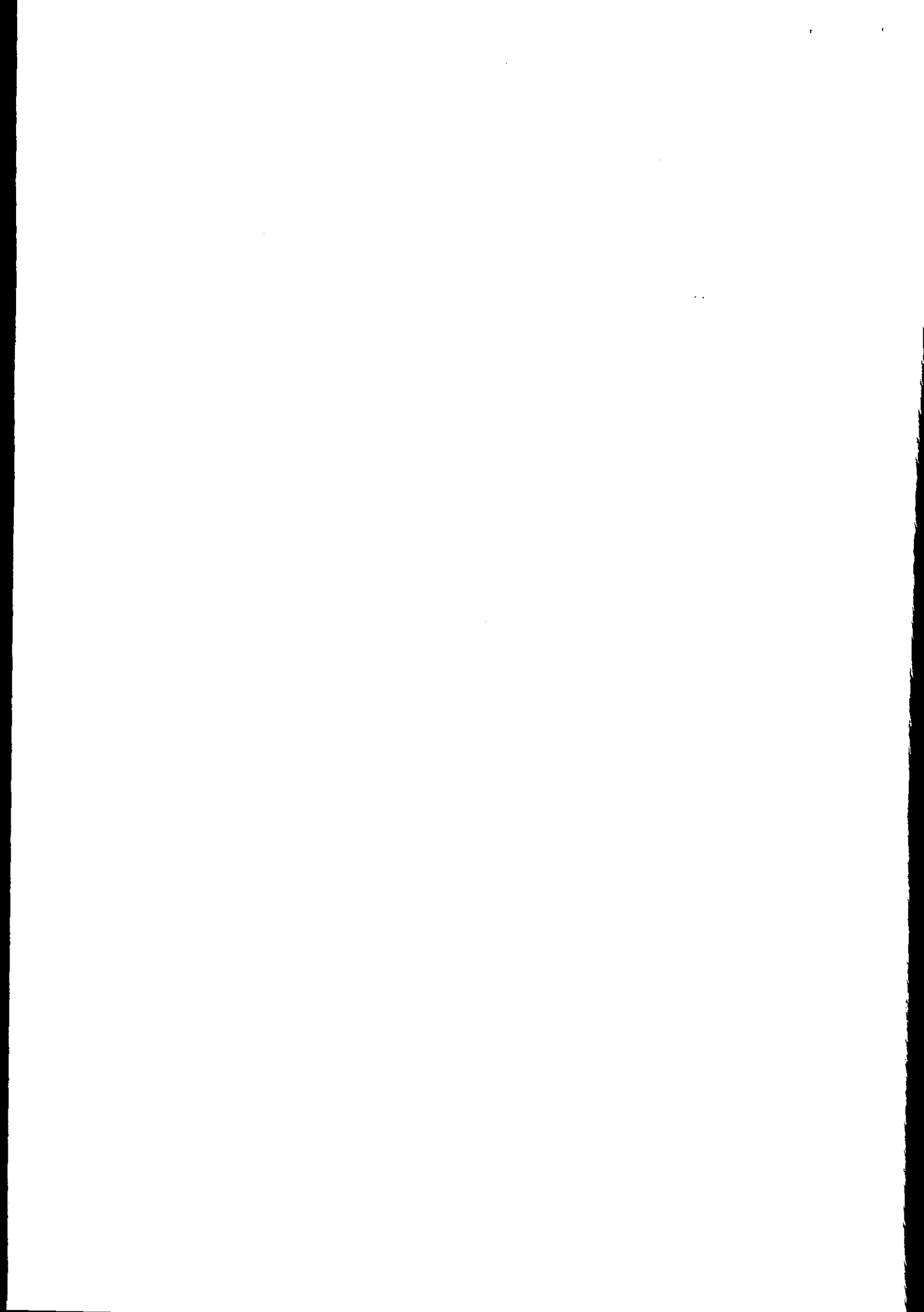
AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors. The company passed elective resolutions on 13 May 1997 dispensing with the requirement to hold annual general meetings.

Approved by the Board of Directors
and signed on behalf of the Board on 23 April 2002.



K J Fay
Director



STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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;
- 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 accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 AUDITORS' REPORT TO THE MEMBERS OF MICROSOFT RESEARCH LIMITED

We have audited the financial statements of Microsoft Research Limited for the year ended 29 June 2001 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

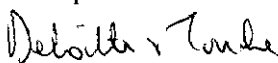
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 29 June 2001 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.


DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors

26 April 2002

MICROSOFT RESEARCH LIMITED

PROFIT AND LOSS ACCOUNT

52 weeks ended 29 June 2001

	Note	2001 £	2000 £
TURNOVER: continuing operations	2	12,489,530	8,865,974
Administrative expenses		<u>(11,091,663)</u>	<u>(8,044,185)</u>
OPERATING PROFIT: continuing operations	4	1,397,867	821,789
Interest receivable and similar income		44,757	19,713
Interest payable and similar charges	5	<u>(263,856)</u>	<u>(60,862)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	1,178,768	780,640
Tax on profit on ordinary activities		<u>(370,000)</u>	<u>(216,729)</u>
PROFIT FOR THE FINANCIAL PERIOD	12	<u><u>808,768</u></u>	<u><u>563,911</u></u>

There are no recognised gains or losses for the current or preceding period other than as stated above and therefore no statement of total recognised gains and losses is required.

MICROSOFT RESEARCH LIMITED

BALANCE SHEET

As at 29 June 2001

	Note	29 June 2001 £	30 June 2000 £
FIXED ASSETS			
Tangible assets	7	8,432,420	2,259,291
CURRENT ASSETS			
Debtors	8	3,148,521	1,456,526
Cash at bank and in hand		225,893	348,609
		3,374,414	1,805,135
CREDITORS: amounts falling due within one year	9	(9,588,593)	(2,539,153)
NET CURRENT LIABILITIES		(6,214,179)	(734,018)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,218,241	1,525,273
PROVISIONS FOR LIABILITIES AND CHARGES	10	(253,978)	(369,778)
		1,964,263	1,155,495
CAPITAL AND RESERVES			
Called up share capital	11	30,000	30,000
Profit and loss account	12	1,934,263	1,125,495
EQUITY SHAREHOLDERS' FUNDS		1,964,263	1,155,495

These financial statements were approved by the Board of Directors on 23 April 2002.

Signed on behalf of the Board of Directors


K J Fay

Director

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	20%
Computer equipment	20 - 100%
Fixtures, fittings and telecoms equipment	20 - 33%

No depreciation is charged on assets in the course of construction.

Financial year

The financial year is the fifty two or fifty three week period ending on the Friday closest to 30 June.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Deferred taxation

Deferred taxation is provided on timing differences arising from different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is estimated that tax will arise.

Pensions

The company makes contributions into the Microsoft Group personal pension scheme dependent upon the contributions of the employees themselves. The contributions are charged to the profit and loss account as they become due and payable.

Foreign currencies

Transactions in foreign currencies during the year are recorded 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 rate of exchange at the balance sheet date.

All exchange gains and losses are taken to the profit and loss account.

2. TURNOVER

Turnover represents amounts derived from the parent undertaking in the United States.

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2001

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001	2000
	No.	No.
The average number of employees during the year was as follows:		
Research	63	48
Other	8	7
	<u>71</u>	<u>55</u>
Staff costs:	£	£
Wages and salaries	4,090,547	3,036,018
Social security costs	500,264	363,736
Other pension costs	147,802	122,163
	<u>4,738,613</u>	<u>3,521,917</u>
Directors emoluments:		
Remuneration	184,167	170,580
Pension contribution	6,708	7,512
	<u>190,875</u>	<u>178,092</u>

Contributions were made to a defined contribution pension scheme on behalf of one director in both the current and prior years.

4. OPERATING PROFIT

	2001	2000
	£	£
Operating profit is after charging:		
Auditors' remuneration – other services	4,000	3,750
Rentals under operating leases	306,278	281,228
Depreciation of tangible fixed assets	733,076	644,058
	<u>1,043,354</u>	<u>929,036</u>

Audit fees were borne by another group company in both the current and prior years.

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2001

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Bank interest and charges	2,307	1,542
Group interest payable	261,549	59,320
	<u>263,856</u>	<u>60,862</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
UK corporation tax at 30%	705,800	142,660
Deferred tax	(335,800)	102,996
Adjustment in respect of prior years corporation tax	-	(28,927)
	<u>370,000</u>	<u>216,729</u>

Deferred tax is as per note 10.

7. TANGIBLE FIXED ASSETS

	Assets in the course of construction £	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost					
At 1 July 2000	817,582	1,815,210	816,060	423,580	3,872,432
Additions	7,292,426	216,625	236,190	96,255	7,841,496
Disposals	-	-	(5,770)	(2,490)	(8,260)
	<u>8,110,008</u>	<u>2,031,835</u>	<u>1,046,480</u>	<u>517,345</u>	<u>11,705,668</u>
At 29 June 2001					
	<u>8,110,008</u>	<u>2,031,835</u>	<u>1,046,480</u>	<u>517,345</u>	<u>11,705,668</u>
Accumulated depreciation					
At 1 July 2000	-	598,556	752,860	261,725	1,613,141
Charge for the period	-	397,603	208,495	126,978	733,076
Impairment charge	-	933,749	-	-	933,749
Disposals	-	-	(5,770)	(948)	(6,718)
	<u>-</u>	<u>1,929,908</u>	<u>955,585</u>	<u>387,755</u>	<u>3,273,248</u>
At 29 June 2001					
	<u>-</u>	<u>1,929,908</u>	<u>955,585</u>	<u>387,755</u>	<u>3,273,248</u>
Net book value					
At 29 June 2001	<u>8,110,008</u>	<u>101,927</u>	<u>90,895</u>	<u>129,590</u>	<u>8,432,420</u>
At 30 June 2000	<u>817,582</u>	<u>1,216,654</u>	<u>63,200</u>	<u>161,855</u>	<u>2,259,291</u>

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2001

8. DEBTORS

	2001	2000
	£	£
Amounts owed by group undertakings	2,825,680	1,249,409
Prepayments and other debtors	322,841	207,117
	<u>3,148,521</u>	<u>1,456,526</u>

All debtors are due within one year.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000
	£	£
Overdraft	44,258	-
Trade creditors	93,511	261,214
Amounts owed to group undertakings	7,584,380	1,326,517
Corporation tax	541,687	15,258
Other creditors	636,682	405,323
Accruals	688,075	530,841
	<u>9,588,593</u>	<u>2,539,153</u>

10. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation – capital allowances	£
in excess of depreciation	
At 1 July 2000	369,778
Credit for the period	<u>(335,800)</u>
At 29 June 2001	<u>33,978</u>
Other Provisions – vacant space	
At 1 July 2000	-
Charge for the period	<u>220,000</u>
At 29 June 2001	<u>220,000</u>

The vacant space provision represents rental commitments for vacant property space and will be released over the remaining life of the lease.

NOTES TO THE ACCOUNTS
52 weeks ended 29 June 2001

11. CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised 200,000 ordinary shares of £1 each	200,000	200,000
Called up, allotted and fully paid 30,000 £1 ordinary shares	30,000	30,000

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up capital share £	Profit and loss account £	Total 2001 £	Total 2000 £
At the beginning of the period	30,000	1,125,495	1,155,495	591,584
Profit for the period	-	808,768	808,768	563,911
At the end of the period	30,000	1,934,263	1,964,263	1,155,495

13. OPERATING LEASE COMMITMENTS

	Land and buildings 2001 £	Computer equipment 2001 £	Total 2001 £	Land and buildings 2000 £
At 29 June 2001, the company had annual commitments under non- cancellable operating leases as follows:				
Leases which expire				
Within one year	-	12,043	12,043	-
Within 2 to 5 years	1,138,404	-	1,138,404	189,308
	1,138,404	12,043	1,150,447	189,308

14. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking of the company, which is also the controlling party is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. 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.

15. 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.