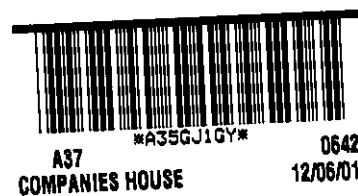


**MICROSOFT RESEARCH LIMITED**

**Report and Financial Statements**

**52 weeks ended 30 June 2000**

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



**REPORT AND FINANCIAL STATEMENTS 2000**

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**REPORT AND FINANCIAL STATEMENTS 2000**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Professor R Needham

R A Eshelman (resigned 31 January 2001)

G B Maffei (resigned 31 January 2001)

J Connors (appointed 7 January 2000, resigned 31 January 2001)

K J Fay (appointed 31 January 2001)

J A Seethoff (appointed 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

12 High Street

Windsor

Berkshire

SL4 1LQ

Citibank NA

336 The Strand

London

WC2R 1HB

**SOLICITORS**

Richards Butler

Beaufort House

Tenth Floor

15 St Botolph Street

London

EC3A 7EE

Hewitson Becke & Shaw

Shakespeare House

42 Newmarket Road

Cambridge

CB5 8EP

**AUDITORS**

Deloitte & Touche

Chartered Accountants

Columbia Centre

Market Street

Bracknell

Berkshire

RG12 1PA

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 52 weeks ended 30 June 2000.

### **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 and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board on 6 June 2001.



Professor R Needham  
Director

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.

## **AUDITORS' REPORT TO THE MEMBERS OF**

### **MICROSOFT RESEARCH LIMITED**

We have audited the financial statements on pages 5 to 11 which have been prepared under the accounting policies set out on page 7.

#### **Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of 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 30 June 2000 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Deloitte & Touche

Chartered Accountants and Registered Auditors

6 June 2001



**PROFIT AND LOSS ACCOUNT**  
**52 weeks ended 30 June 2000**

	Note	2000 £	1999 £
<b>TURNOVER: continuing operations</b>	2	8,865,974	5,757,665
Administrative expenses		<u>(8,044,185)</u>	<u>(5,269,890)</u>
<b>OPERATING PROFIT: continuing operations</b>	4	821,789	487,775
Interest receivable and similar income		19,713	-
Interest payable and similar charges	5	<u>(60,862)</u>	<u>(83,698)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		780,640	404,077
Tax on profit on ordinary activities		<u>(216,729)</u>	<u>(123,718)</u>
<b>PROFIT FOR THE FINANCIAL PERIOD</b>	12	<u><u>563,911</u></u>	<u><u>280,359</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.



BALANCE SHEET  
As at 30 June 2000

	Note	30 June 2000 £	2 July 1999 £
<b>FIXED ASSETS</b>			
Tangible assets	7	2,259,291	1,486,199
<b>CURRENT ASSETS</b>			
Debtors	8	1,456,526	1,258,012
Cash at bank and in hand		348,609	119,424
		1,805,135	1,377,436
<b>CREDITORS: amounts falling due within one year</b>	9	(2,539,153)	(2,005,269)
<b>NET CURRENT LIABILITIES</b>		(734,018)	(627,833)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,525,273	858,366
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	10	(369,778)	(266,782)
		1,155,495	591,584
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	30,000	30,000
Profit and loss account	12	1,125,495	561,584
<b>EQUITY SHAREHOLDERS FUNDS</b>		1,155,495	591,584

These financial statements were approved by the Board of Directors on 6 June 2001.

Signed on behalf of the Board of Directors



Professor R Needham

Director

**NOTES TO THE ACCOUNTS**  
**52 weeks ended 30 June 2000****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%

**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 30 June 2000

## 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000 No.	1999 No.
<b>The average number of employees during the year was as follows:</b>		
Research	48	25
Other	7	6
	<u>55</u>	<u>31</u>
<b>Staff costs:</b>	<b>£</b>	<b>£</b>
Wages and salaries	3,036,018	1,840,008
Social security costs	363,736	182,673
Other pension costs	122,163	67,038
	<u>3,521,917</u>	<u>2,089,719</u>
<b>Directors emoluments:</b>		
Remuneration	170,580	146,355
Pension contribution	7,512	5,133
	<u>178,092</u>	<u>151,488</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

	2000 £	1999 £
<b>Operating profit is after charging:</b>		
Auditors' remuneration – other services	3,750	3,500
Rentals under operating leases	281,228	245,070
Depreciation of tangible fixed assets	644,058	667,357

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

**NOTES TO THE ACCOUNTS**  
**52 weeks ended 30 June 2000****5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2000 £	1999 £
Bank interest and charges	1,542	1,684
Group interest payable	59,320	82,014
	<u>60,862</u>	<u>83,698</u>

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2000 £'000	1999 £'000
UK corporation tax at 30%	142,660	28,927
Deferred tax	102,996	94,791
Adjustment in respect of prior years corporation tax	(28,927)	-
	<u>216,729</u>	<u>123,718</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 £
<b>Cost</b>					
At 3 July 1999	15,800	1,418,274	650,381	370,827	2,455,282
Additions	801,782	396,936	165,679	52,753	1,417,150
At 30 June 2000	<u>817,582</u>	<u>1,815,210</u>	<u>816,060</u>	<u>423,580</u>	<u>3,872,432</u>
<b>Accumulated depreciation</b>					
At 3 July 1999	-	304,389	528,448	136,246	969,083
Charge for the period	-	294,167	224,412	125,479	644,058
At 30 June 2000	<u>-</u>	<u>598,556</u>	<u>752,860</u>	<u>261,725</u>	<u>1,613,141</u>
<b>Net book value</b>					
At 20 June 2000	<u>817,582</u>	<u>1,216,654</u>	<u>63,200</u>	<u>161,855</u>	<u>2,259,291</u>
At 2 July 1999	<u>15,800</u>	<u>1,113,885</u>	<u>121,933</u>	<u>234,581</u>	<u>1,486,199</u>

NOTES TO THE ACCOUNTS  
52 weeks ended 30 June 2000

## 8. DEBTORS

	2000	1999
	£	£
Amounts owed by group undertakings	1,249,409	1,039,697
Other debtors	207,117	218,315
	<u>1,456,526</u>	<u>1,258,012</u>

All debtors are due within one year.

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

	2000	1999
	£	£
Trade creditors	261,214	211,537
Amounts owed to group undertakings	1,326,517	1,388,530
Corporation tax	15,258	28,927
Other creditors	405,323	376,275
Accruals	530,841	-
	<u>2,539,153</u>	<u>2,005,269</u>

## 10. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation – capital allowances in excess of depreciation	£
At 3 July 1999	266,782
Charge for the period	102,996
At 30 June 2000	<u>369,778</u>

## 11. CALLED UP SHARE CAPITAL

	2000	1999
	£	£
Authorised 200,000 ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Called up, allotted and fully paid 30,000 £1 ordinary shares	<u>30,000</u>	<u>30,000</u>

## 12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up capital share £	Profit and loss account £	Total 2000 £	Total 1999 £
At the beginning of the period	30,000	561,584	591,584	311,225
Profit for the period	-	563,911	563,911	280,359
At the end of the period	<u>30,000</u>	<u>1,125,495</u>	<u>1,155,495</u>	<u>591,584</u>

**NOTES TO THE ACCOUNTS**  
**52 weeks ended 30 June 2000****13. OPERATING LEASE COMMITMENTS**

At 30 June 2000, the company had annual commitments under non- cancellable operating leases as follows:	Land and buildings 2000	Land and buildings 1999
	£	£
Leases which expire Within 2 to 5 years	189,308	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.