

MICROSOFT RESEARCH LIMITED

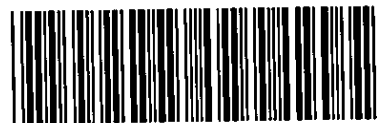
Report and Financial Statements

52 weeks ended 27 June 2008

Presented -
Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London
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Solicitors

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Herbert
K R Dolliver
B O Orndorff

SECRETARY

R B Secretariat Limited

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 LLP
Reading

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 week period ended 27 June 2008.

ACTIVITIES

Microsoft Research Limited is engaged in computer science research.

REVIEW OF RESULTS AND FUTURE PROSPECTS

The results for the period are shown on page 5. Turnover decreased by 4% to £28,649,525 (2007: £29,962,454). Profit before taxation decreased to £1,032,493 (2007: £1,416,089). The directors feel that this leaves them in a sound position for the coming period. Interim dividends of £5,230,826 were paid in the period (2007: £nil). The directors do not propose a final dividend this period (2007: £nil).

The company maintained a strong balance sheet and had net assets at 27 June 2008 of £9,712,653 (2007: £9,665,590) and a cash balance of £3,181,681 (2007: £1,219,694).

PRINCIPAL RISKS AND UNCERTAINTIES

The company earns revenue on a cost-plus basis, reimbursed by other group companies. It does not have significant borrowings or foreign currency exposure. The Microsoft group continues to invest in research activities. In the opinion of the directors, there are no significant risks and uncertainties facing the company.

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a strong expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

POST BALANCE SHEET EVENTS

On 26 August 2008, the company paid a dividend of £8 million.

DIRECTORS

The directors who served during the period and subsequently are shown on page 1.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

On 1 December 2008, Deloitte & Touche LLP changed their name to Deloitte LLP. Deloitte LLP have expressed their willingness to continue in office as auditors. The company passed elective resolutions on 13 March 1997 dispensing with the requirements to hold annual general meetings.

Approved by the Board and signed on behalf of the board on 5 June 2009



A Herbert
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 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 52 weeks ended 27 June 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 27 June 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

DELOITTE LLP

Chartered Accountants and Registered Auditors
Reading, United Kingdom

5 June 2009

MICROSOFT RESEARCH LIMITED

PROFIT AND LOSS ACCOUNT

52 weeks ended 27 June 2008

	Note	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
TURNOVER	2	28,649,525	29,962,454
Administrative expenses		<u>(28,192,554)</u>	<u>(28,955,003)</u>
OPERATING PROFIT	4	456,971	1,007,451
Interest payable and similar charges	5	(4,626)	(5,185)
Interest receivable and similar income	6	<u>580,148</u>	<u>413,823</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,032,493	1,416,089
Tax credit on profit on ordinary activities	7	<u>1,708,390</u>	<u>261,677</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	15	<u>2,740,883</u>	<u>1,677,766</u>

All amounts derive from continuing operations.

There were no recognised gains and losses other than as shown in the profit and loss account above. Accordingly, no statement of total recognised gains and losses has been presented.

MICROSOFT RESEARCH LIMITED

BALANCE SHEET As at 27 June 2008

	Note	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
FIXED ASSETS			
Tangible fixed assets	9	1,930,160	1,402,883
Investments	10	8,479	8,479
		<u>1,938,639</u>	<u>1,411,362</u>
CURRENT ASSETS			
Debtors	11	13,395,875	16,970,549
Cash at bank and in hand		<u>3,181,681</u>	<u>1,219,694</u>
		16,577,556	18,190,243
CREDITORS: amounts falling due within one year	12	<u>(8,803,542)</u>	<u>(9,936,015)</u>
NET CURRENT ASSETS		<u>7,774,014</u>	<u>8,254,228</u>
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		<u>9,712,653</u>	<u>9,665,590</u>
CAPITAL AND RESERVES			
Called up share capital	14	30,000	30,000
Profit and loss account	15	<u>9,682,653</u>	<u>9,635,590</u>
SHAREHOLDERS' FUNDS	15	<u>9,712,653</u>	<u>9,665,590</u>

These financial statements were approved by the Board of Directors on 5 June 2009.

Signed on behalf of the Board of Directors



A Herbert
Director

NOTES TO THE ACCOUNTS
52 weeks ended 27 June 2008

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. These have been consistently applied in both the current and preceding financial periods.

Accounting convention

The financial statements are prepared under the historical cost convention.

Share-based payments

The Microsoft group operates a number of share-based payment arrangements. These are detailed further in note 16.

The fair value of awards granted is spread over the vesting period of those awards. A corresponding amount is credited to reserves. Refer to note 16 for details of how the fair value of awards is determined.

Financial year

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

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

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	Over the period of the lease
Computer equipment	20 - 100%
Fixtures, fittings and telecoms equipment	20 - 33%

Investments

Investments are stated at cost, less any provision for impairment. The company has one investment, as described in note 10. The company does not control this investment, hence is not required to prepare consolidated accounts to include the results of the investment.

Leases

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

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover

Turnover represents amounts derived from parent undertaking and is stated at cost plus ten percent.

Research and development expenditure

Expenditure on research and development is written off in the period in which it is incurred.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

1. ACCOUNTING POLICIES (continued)

Grants

Grants awarded to support research projects are recorded at the date the company grants the award. Grant amounts committed but not yet paid are included in accruals. The amount of the grant which is accrued is restricted to those sums which have been committed to at the balance sheet date.

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 period 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 of America and is wholly derived from the company's principal activity.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
The average number of employees (including directors) during the year was as follows:		
Research	121	115
Other	26	21
	<u>147</u>	<u>136</u>
Staff costs:		
	£	£
Wages and salaries	11,336,961	10,213,051
Social security costs	1,850,679	1,549,138
Other pension costs	556,733	371,669
Share-based payments charge	2,537,006	1,895,272
	<u>16,281,379</u>	<u>14,029,130</u>
Directors emoluments:		
	£	£
Remuneration	245,307	237,415
Pension contribution	12,233	13,056
	<u>257,540</u>	<u>250,471</u>
Highest paid director:		
	£	£
Fees and other emoluments	<u>257,540</u>	<u>250,471</u>

Contributions were made to a defined contribution pension scheme on behalf of one director (2007: one). The other two directors (2007: two) of the Parent Company have apportioned their remuneration between the group companies that they serve and the allocation for Microsoft Research Limited is £nil (2007: £nil).

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

4. OPERATING PROFIT

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
Operating profit is stated after charging:		
Rentals under other operating leases:		
- plant and machinery	25,639	41,814
- other	1,367,054	1,199,640
Depreciation of tangible fixed assets	727,437	366,603
Auditors' remuneration – audit services	18,278	17,490
	<u>1,367,054</u>	<u>1,199,640</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
Bank interest and charges	<u>4,626</u>	<u>5,185</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
Bank interest receivable	53,547	27,387
Interest received from group undertakings	526,601	386,436
	<u>580,148</u>	<u>413,823</u>

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

7. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
UK corporation tax	(1,164,675)	(323,721)
Adjustment in respect of prior years – current tax	(306,783)	(73,379)
Total Current tax credit for the period	(1,471,458)	(397,100)
Deferred tax (credit) / charge – current year	(236,932)	135,423
Total deferred tax (credit) / charge for the period	(236,932)	135,423
Total tax credit for the period	(1,708,390)	(261,677)

The average standard rate of current tax for the period, based on the UK standard rate of corporation tax is 29.5% (2007: 30%). The current tax charge for the period differs from 29.5% (2007: 30%) for the reasons set out in the following reconciliation:

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
Profit on ordinary activities before tax	1,032,493	1,416,089
Tax charge on ordinary activities at 29.5% (2007: 30%)	304,585	424,827
Permanent adjustments	(497,766)	76,525
Depreciation in excess of capital allowances	(203,317)	(123,799)
R&D tax credit	(815,347)	(660,721)
Other timing differences	47,170	(40,553)
Adjustments in respect of prior years	(306,783)	(73,379)
Current tax credit for the year	(1,471,458)	(397,100)

8. DIVIDENDS

	52 weeks ended 27 June 2008 £	52 weeks ended 29 June 2007 £
Dividends proposed and paid in the year	5,230,826	-

NOTES TO THE ACCOUNTS
52 weeks ended 27 June 2008

9. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost				
At 30 June 2007	696,912	2,200,299	1,655,559	4,552,770
Additions	721,912	264,042	268,760	1,254,714
Disposals	-	(41,813)	(1,566)	(43,379)
27 June 2008	<u>1,418,824</u>	<u>2,422,528</u>	<u>1,922,753</u>	<u>5,764,105</u>
Accumulated depreciation				
At 30 June 2007	278,310	1,617,627	1,253,950	3,149,887
Charge for the period	219,971	307,301	200,165	727,437
Disposals	-	(41,813)	(1,566)	(43,379)
At 27 June 2008	<u>498,281</u>	<u>1,883,115</u>	<u>1,452,549</u>	<u>3,833,945</u>
Net book value				
At 27 June 2008	<u>920,543</u>	<u>539,413</u>	<u>470,204</u>	<u>1,930,160</u>
At 29 June 2007	<u>418,602</u>	<u>582,672</u>	<u>401,609</u>	<u>1,402,883</u>

10. INVESTMENTS

	2008 £	2007 £
Cost and net book value	<u>8,479</u>	<u>8,479</u>

The company holds 50% of the share capital of The Microsoft Research – University of Trento Centre for Computational and Systems Biology, società consortile a.r.l. This is a private limited liability consortium, registered in Italy. The principal activity of the consortium is in research and development.

11. DEBTORS

	2008 £	2007 £
Amounts owed by group undertakings	9,927,164	14,226,756
Corporation tax	2,250,495	1,747,966
Deferred tax asset (note 13)	638,537	401,605
Prepayments and accrued income	579,679	594,222
	<u>13,395,875</u>	<u>16,970,549</u>

All debtors are due within one year, with the exception of deferred tax.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £	2007 £
Trade creditors	350,294	513,696
Other creditors including taxation and social security	904,757	1,933,582
Accruals and deferred income	7,548,491	7,488,737
	<u>8,803,542</u>	<u>9,936,015</u>

Included in other creditors is £817,639 (2007: £533,675) in respect of tax and social security.

13. DEFERRED TAX ASSET

	2008 £	2007 £
The deferred tax provision comprises of:		
Capital allowances taken in excess of depreciation	(538,804)	(390,597)
Share-based payments	1,177,341	792,202
	<u>638,537</u>	<u>401,605</u>

The movement in deferred tax asset during the period was as follows:

Balance at 30 June 2007	401,605
Credited to profit and loss account in the period	236,932
Balance at 27 June 2008	<u>638,537</u>

14. CALLED UP SHARE CAPITAL

	2008 £	2007 £
Authorised 200,000 ordinary shares of £1 each	200,000	200,000
Called up, allotted and fully paid 30,000 £1 ordinary shares	<u>30,000</u>	<u>30,000</u>

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2008

15. COMBINED STATEMENT OF MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	Called up capital share £	Profit and loss account £	Shareholders' funds 2008 £	Shareholders' funds 2007 £
Profit for the financial period	-	2,740,883	2,740,883	1,677,766
Dividend paid	-	(5,230,826)	(5,230,826)	-
Share-based payment – contribution received	-	2,537,006	2,537,006	1,895,272
Net addition to shareholder's funds	-	47,063	47,063	3,573,038
Opening shareholder's funds	30,000	9,635,590	9,665,590	6,092,552
Closing shareholder's funds	30,000	9,682,653	9,712,653	9,665,590

16. SHARE BASED PAYMENTS

Stock Awards

The group has a stock award scheme whereby employees are awarded shares in Microsoft Corporation. These shares vest equally on the first to fifth anniversary of the award date. The employees do not make any payment for these shares. Awards are forfeited if the employee leaves the group before the relevant anniversary date of those awards has been reached.

Details of the share awards outstanding during the year are as follows:

	2008	2007
Number of share awards	-	-
Weighted average exercise price (in £)	-	-
Outstanding at beginning of period	361,082	270,240
Granted during the period	224,604	169,288
Forfeited during the period	(4,786)	(8,788)
Exercised during the period	(104,945)	(69,680)
Expired during the period	-	-
Outstanding at the end of the period	475,955	361,082
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ended 27 June 2008 was \$29.19 (period ended 29 June 2007: \$25.70).

In both the periods ended 27 June 2008 and 29 June 2007, awards were granted on numerous dates. The aggregate of the estimated fair values of the options granted on those dates was £2,762,887 (2007: £2,157,805).

The fair values of awards granted is based upon the market price of the underlying share as of the date of the grant, reduced by the present value of estimated future dividends.

The company recognised total expenses of £1,801,864 and £1,460,654 related to stock award transactions during 2008 and 2007 respectively.

NOTES TO THE ACCOUNTS
52 weeks ended 27 June 2008

16. SHARE BASED PAYMENTS (CONTINUED)

Shared Performance Stock Awards

The group has a Shared Performance Stock Awards ("SPSA") scheme whereby employees are granted shares in Microsoft Corporation if the group meets specified performance targets. A quarter of each award vests each year between one and four years after the end of each performance measurement period.

The fair value of the SPSAs is measured as the market price of the underlying share as of the date of the grant, reduced by the present values of estimated future dividends.

The company recognised total expenses of £729,162 and £411,728 related to SPSA transactions during 2008 and 2007 respectively.

Legacy Share-based Payment Schemes

The company recognised a further £5,980 (2007: £22,890) relating to historic share option schemes. No new awards were made under these schemes during the current or preceding financial period.

17. OPERATING LEASE COMMITMENTS

At 27 June 2008, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2008 £	Other 2008 £	Total 2008 £	Land and buildings 2007 £	Other 2007 £	Total 2007 £
Leases which expire						
Within one year	29,700	130	29,830	40,296	26,344	66,640
Within 2 to 5 years	1,315,855	17,558	1,333,413	1,315,855	17,558	1,333,413
	<u>1,345,555</u>	<u>17,688</u>	<u>1,363,243</u>	<u>1,356,151</u>	<u>43,902</u>	<u>1,400,053</u>

18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking of the company, which is also the controlling party and the largest company preparing group accounts in which the results of the company are consolidated, 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.

The immediate parent company is Microsoft Ireland Capital Limited, which is the smallest company preparing group accounts which include the results of the company.

19. RELATED PARTY TRANSACTIONS

In accordance with FRS 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.

20. POST BALANCE SHEET EVENTS

On 26 August 2008, the company paid a dividend of £8 million.