

MICROSOFT RESEARCH LIMITED

Report and Financial Statements

52 weeks ended 27 June 2003

Presented for filing by -

**RICHARDS BUTLER
BEAUFORT HOUSE
15 ST. BOTOLPH STREET
LONDON EC3A 7EE
SOLICITORS**

Ref: smg/0151026



MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7

MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Herbert
K J Fay
J A Seethoff

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 & Touche LLP
Chartered Accountants
Reading

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 27 June 2003.

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. The directors feel that this leaves them in a sound position for the coming period. The directors do not propose a dividend this period (2002: £2,780,402).

DIRECTORS AND THEIR INTERESTS

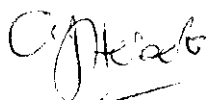
The directors who served during the period are shown on page 1. None of the directors had any interest in the shares of the company or any other group company within the UK at any point during the period.

AUDITORS

On 1 August 2003 Deloitte & Touche transferred their entire business to Deloitte & Touche LLP, a limited liability partnership formed pursuant to the Limited Liability Partnership Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP. Accordingly, the accounts have been signed in the name of Deloitte & Touche LLP.

Deloitte & Touche LLP 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 8th April 2004.



A Herbert

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper 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 the system of internal control, 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 2003 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.

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 found.

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.

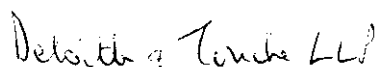
Basis of audit opinion

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 27 June 2003 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Reading

8th April 2004

MICROSOFT RESEARCH LIMITED

PROFIT AND LOSS ACCOUNT

52 weeks ended 27 June 2003

	Note	2003 £	2002 £
TURNOVER: continuing operations	2	15,592,198	13,992,493
Administrative expenses		<u>(14,244,016)</u>	<u>(12,965,092)</u>
OPERATING PROFIT: continuing operations	4	1,348,182	1,027,401
Other (expense)/income		(24,117)	381,622
Interest receivable and similar income		100,787	87,634
Interest payable and similar charges	5	<u>(7,380)</u>	<u>(163,085)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,417,472	1,333,572
Tax on profit on ordinary activities	6	<u>(183,658)</u>	<u>(487,433)</u>
PROFIT FOR THE FINANCIAL PERIOD		1,233,814	846,139
Dividends proposed		<u>-</u>	<u>(2,780,402)</u>
RETAINED PROFIT/(LOSS) TRANSFERRED TO/(FROM) RESERVES	12	<u>1,233,814</u>	<u>(1,934,263)</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 27 June 2003

	Note	27 June 2003 £	28 June 2002 £
FIXED ASSETS			
Tangible fixed assets	7	531,732	823,271
CURRENT ASSETS			
Debtors	8	3,017,490	4,659,037
Cash at bank and in hand		323,335	849,020
		3,340,825	5,508,057
CREDITORS: amounts falling due within one year	9	(2,408,014)	(5,252,923)
NET CURRENT ASSETS		932,811	255,134
TOTAL ASSETS LESS CURRENT LIABILITIES		1,464,543	1,078,405
PROVISIONS FOR LIABILITIES AND CHARGES	10	(200,729)	(1,048,405)
NET ASSETS		1,263,814	30,000
CAPITAL AND RESERVES			
Called up share capital	11	30,000	30,000
Profit and loss account	12	1,233,814	-
EQUITY SHAREHOLDERS' FUNDS	12	1,263,814	30,000

These financial statements were approved by the Board of Directors on 8th April 2004.

Signed on behalf of the Board of Directors


A Herbert
Director

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom 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	Over the period of the lease
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

The group has adopted FRS 19 "Deferred Tax". 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.

Research and development expenditure

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

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 of America.

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 No.	2002 No.
The average number of employees during the year was as follows:		
Research	68	63
Other	8	8
	<u>76</u>	<u>71</u>
Staff costs:	£	£
Wages and salaries	5,525,986	4,834,188
Social security costs	682,315	701,958
Other pension costs	221,425	182,899
	<u>6,429,726</u>	<u>5,719,045</u>
Directors emoluments:		
Remuneration	233,410	208,688
Pension contribution	2,024	5,278
	<u>235,434</u>	<u>213,966</u>
Highest paid director:		
Fees and other emoluments	<u>181,540</u>	<u>213,966</u>
Highest paid director:		
Amount of accrued pension at year-end	<u>-</u>	<u>-</u>

Contributions were made to a defined contribution pension scheme on behalf of one director (2002: one). The two directors (2002: 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 (2002: £nil).

4. OPERATING PROFIT

	2003 £	2002 £
Operating profit is after charging:		
Rentals under other operating leases	1,218,336	781,234
Depreciation of tangible fixed assets	<u>597,090</u>	<u>562,808</u>

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

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Bank interest and charges	7,380	1,402
Group interest payable	-	161,683
	<u>7,380</u>	<u>163,085</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £	2002 £
UK corporation tax at 30%	301,669	284,897
Adjustment in respect of priors years – corporation tax	(22,495)	(10,468)
	<u>279,174</u>	<u>274,429</u>
Deferred tax	(95,516)	150,258
Adjustment in respect of priors years – deferred tax	-	62,746
	<u>183,658</u>	<u>487,433</u>

Deferred tax is as per note 10.

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

	2003 £	2002 £
Profit on ordinary activities before tax	<u>1,417,472</u>	<u>1,333,572</u>
Tax charge on ordinary activities at 30%	425,242	400,071
Permanent adjustments	(219,089)	35,084
Capital allowances in excess of depreciation	95,516	(150,258)
Adjustments in respect of prior years	(22,495)	(10,468)
Current tax charge for the year	<u>279,174</u>	<u>274,429</u>

NOTES TO THE ACCOUNTS
52 weeks ended 27 June 2003

7. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost				
At 29 June 2002	2,041,899	1,436,233	1,118,708	4,596,840
Additions	35,795	260,418	9,338	305,551
Disposals	(2,041,899)	(337,065)	-	(2,378,964)
At 27 June 2003	35,795	1,359,586	1,128,046	2,523,427
Accumulated depreciation				
At 29 June 2002	2,041,899	1,152,702	578,968	3,773,569
Charge for the period	745	349,625	246,720	597,090
Disposals	(2,041,899)	(337,065)	-	(2,378,964)
At 27 June 2003	745	1,165,262	825,688	1,991,695
Net book value				
At 27 June 2003	35,050	194,324	302,358	531,732
At 28 June 2002	-	283,531	539,740	823,271

8. DEBTORS

	2003 £	2002 £
Amounts owed by group undertakings	2,322,295	4,187,116
Corporation tax	174,041	-
Prepayments and other debtors	521,154	471,921
	<u>3,017,490</u>	<u>4,659,037</u>

All debtors are due within one year.

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003	2002
	£	£
Trade creditors	152,103	105,061
Amounts owed to group undertakings	50,110	-
Corporation tax	-	333,618
Other creditors including taxation and social security	1,069,146	891,836
Accruals and deferred income	1,136,655	1,142,006
Dividends proposed	-	2,780,402
	<u>2,408,014</u>	<u>5,252,923</u>

10. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation -- capital allowances in excess of depreciation	
At 29 June 2002	246,982
Credit for the period	(95,516)
At 27 June 2003	<u>151,466</u>
Other Provisions -- vacant space	
At 29 June 2002	801,423
Released in period	(233,792)
Utilised in period	(518,368)
At 27 June 2003	<u>49,263</u>

The vacant space provision represents dilapidation costs owed to the Landlord of the former head office and is expected to be utilised in the coming year.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

11. CALLED UP SHARE CAPITAL

	2003 £	2002 £
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 2003 £	Total 2002 £
At the beginning of the period	30,000	-	30,000	1,964,263
Retained profit/(loss) for the period	-	1,233,814	1,233,814	(1,934,263)
At the end of the period	30,000	1,233,814	1,263,814	30,000

13. OPERATING LEASE COMMITMENTS

At 27 June 2003, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2003 £	Other 2003 £	Total 2003 £	Land and buildings 2002 £	Other 2002 £	Total 2002 £
Leases which expire						
Within one year	26,340	16,172	42,512	354,916	-	354,916
Within 2 to 5 years	1,142,019	33,805	1,175,824	1,142,040	47,030	1,189,070
	1,168,359	49,977	1,218,336	1,496,956	47,030	1,543,986

14. 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.

NOTES TO THE ACCOUNTS

52 weeks ended 27 June 2003

15. 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.