

**MICROSOFT RESEARCH LIMITED**

**Report and Financial Statements**

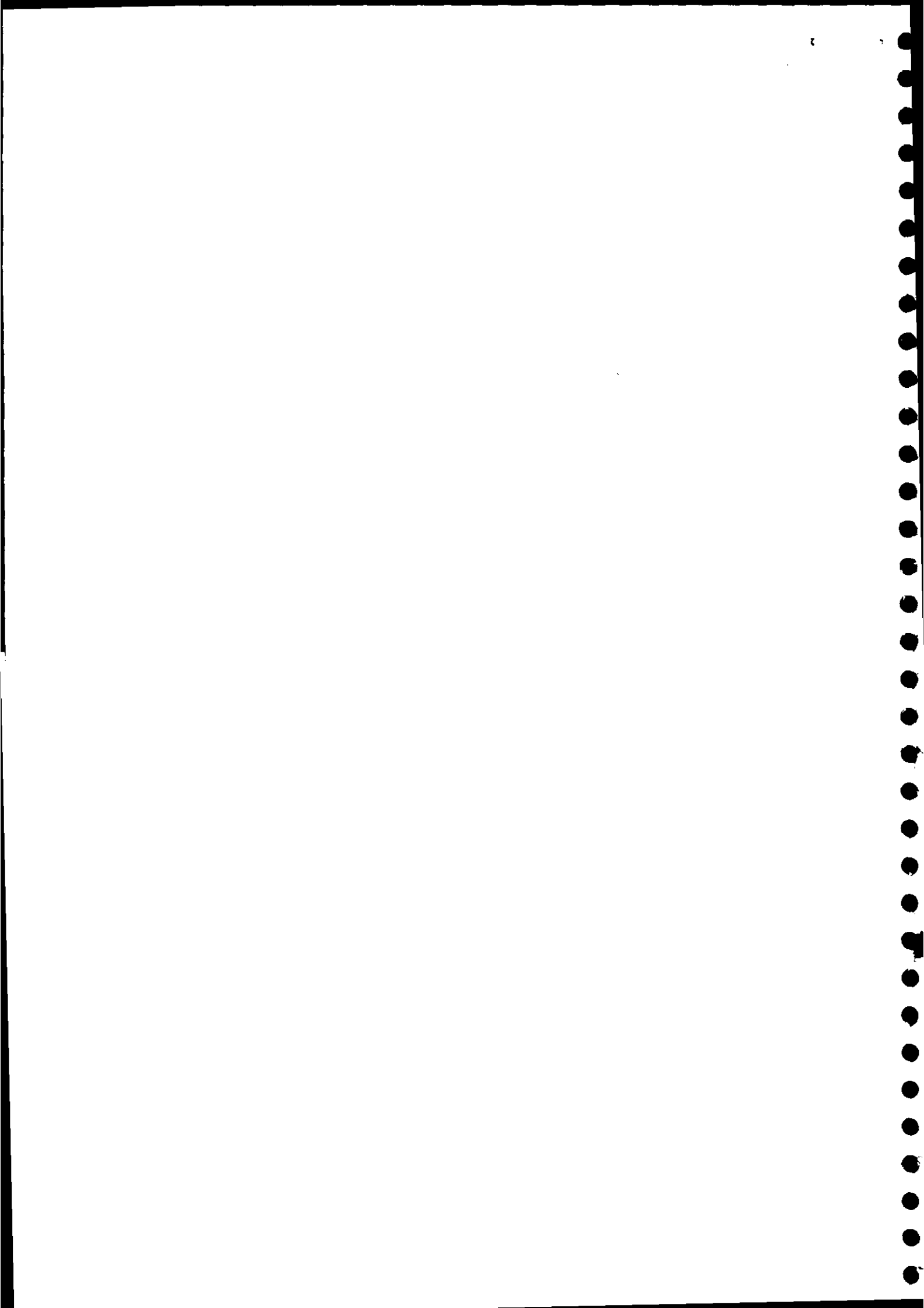
**53 weeks ended 2 July 2004**



*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 2004**

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



# **MICROSOFT RESEARCH LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2004**

### **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*

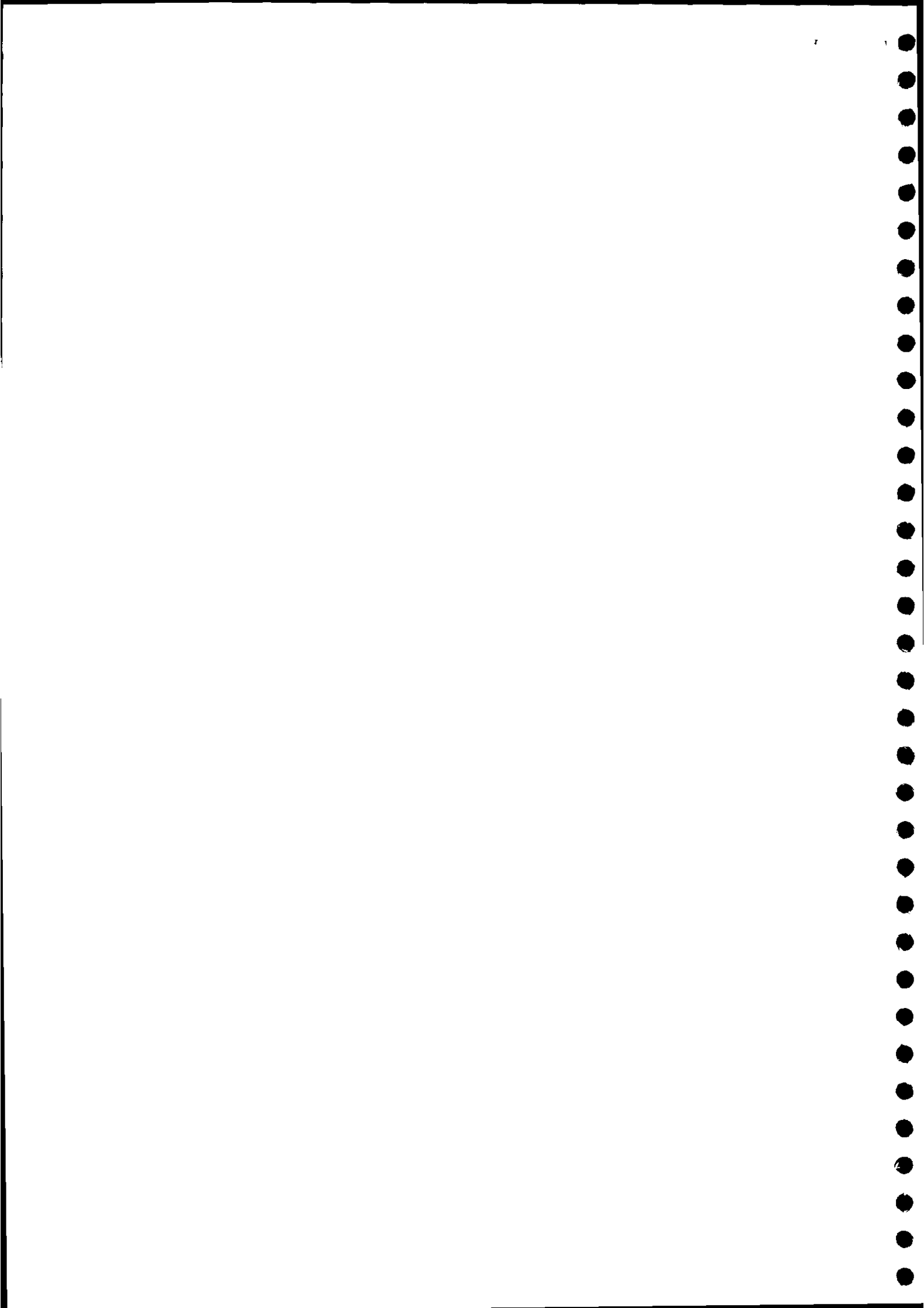
#### **SOLICITORS**

*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 53 weeks ended 2 July 2004.

### **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 (2003: £nil).

### **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.

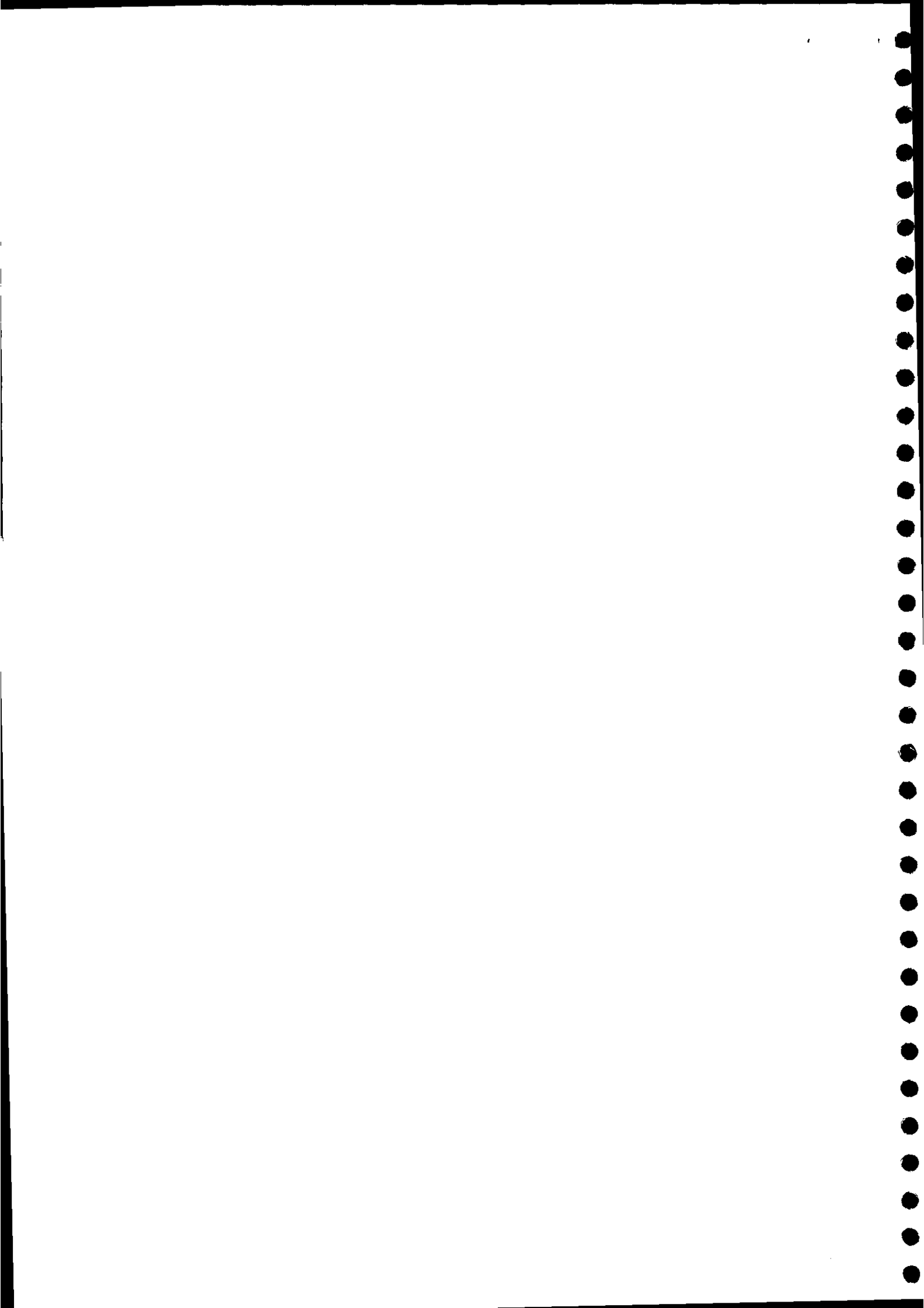
### **AUDITORS**

Deloitte & Touche 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 *2nd Feb* 2005.



A Herbert  
Director



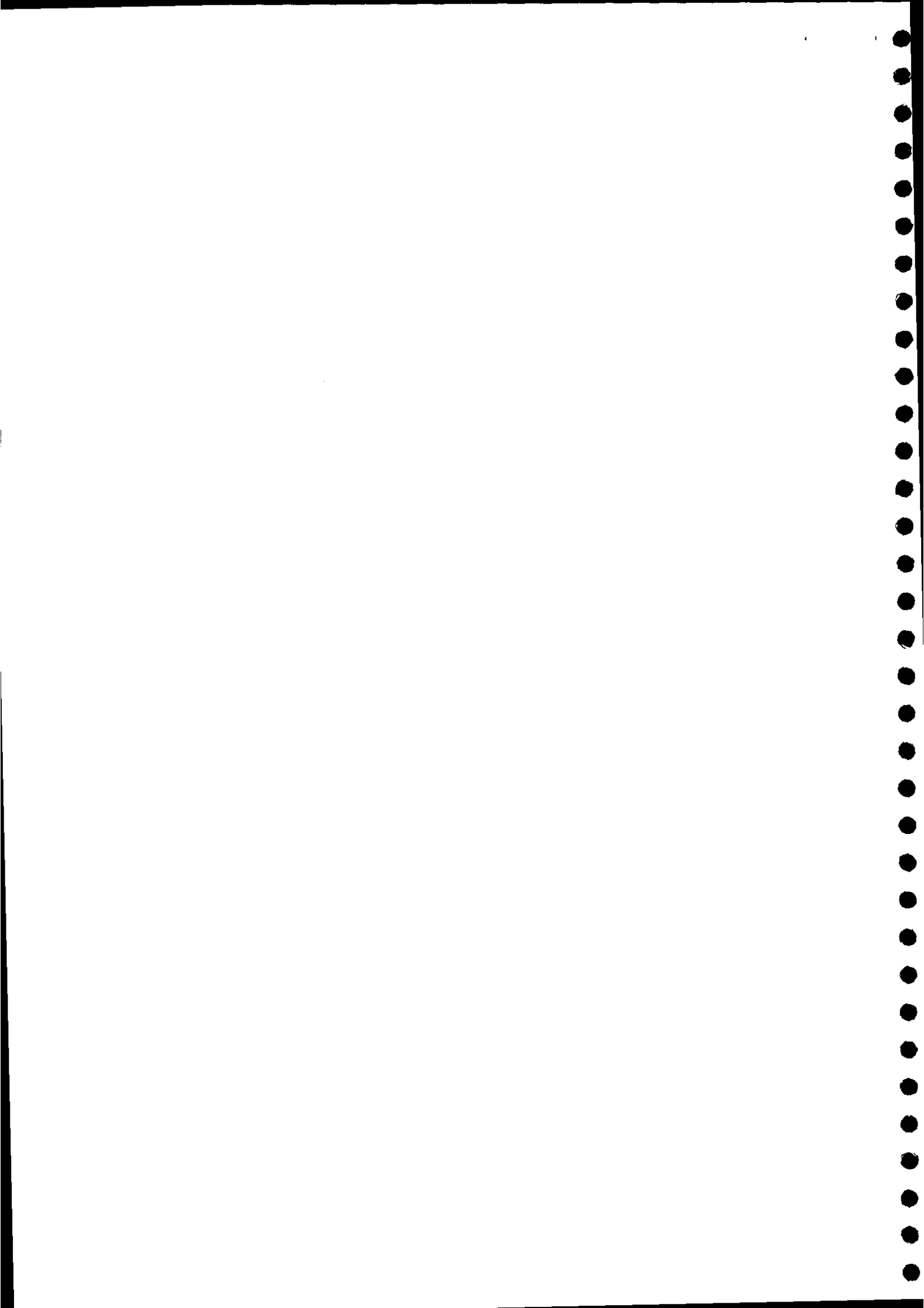


**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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;
- follow applicable United Kingdom accounting standards; 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 53 weeks ended 2 July 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. 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.

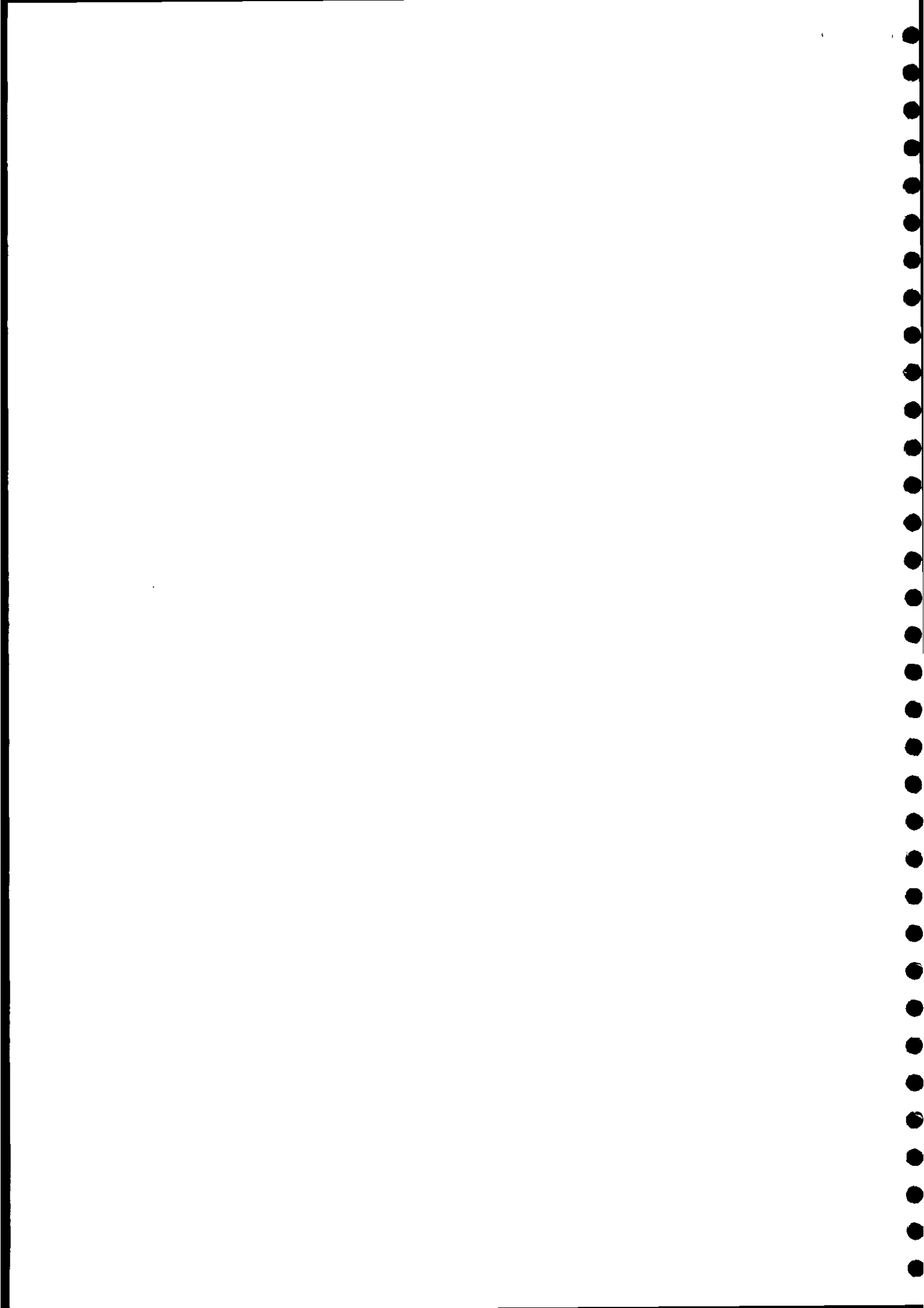
**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 2 July 2004 and of its profit for the 53 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

DELOITTE & TOUCHE LLP  
Chartered Accountants and Registered Auditors  
Reading

11 February 2005



# MICROSOFT RESEARCH LIMITED

## PROFIT AND LOSS ACCOUNT

53 weeks ended 2 July 2004

	Note	2004 £	2003 £
<b>TURNOVER</b>	2	18,073,798	15,592,198
Administrative expenses		<u>(16,490,993)</u>	<u>(14,244,016)</u>
<b>OPERATING PROFIT</b>	4	1,582,805	1,348,182
Other expenses		-	(24,117)
Interest payable and similar charges	5	(1,753)	(7,380)
Interest receivable and similar income	6	<u>61,997</u>	<u>100,787</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,643,049	1,417,472
Tax on profit on ordinary activities	7	<u>(138,257)</u>	<u>(183,658)</u>
<b>RETAINED PROFIT TRANSFERRED TO RESERVES</b>	13	<u>1,504,792</u>	<u>1,233,814</u>

All amounts derive from continuing operations.

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 2 July 2004

	Note	2 July 2004 £	27 June 2003 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	8	252,186	531,732
<b>CURRENT ASSETS</b>			
Debtors	9	3,746,002	3,017,490
Cash at bank and in hand		1,779,270	323,335
		5,525,272	3,340,825
<b>CREDITORS: amounts falling due within one year</b>	10	(2,789,084)	(2,408,014)
<b>NET CURRENT ASSETS</b>		2,736,188	932,811
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		2,988,374	1,464,543
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	11	(219,768)	(200,729)
<b>NET ASSETS</b>		2,768,606	1,263,814
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	30,000	30,000
Profit and loss account	13	2,738,606	1,233,814
<b>EQUITY SHAREHOLDERS' FUNDS</b>	13	2,768,606	1,263,814

These financial statements were approved by the Board of Directors on *2nd Feb* . 2005.

Signed on behalf of the Board of Directors



A Herbert

Director

**NOTES TO THE ACCOUNTS**

**53 weeks ended 2 July 2004**

**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**  
**53 weeks ended 2 July 2004**

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2004 No.	2003 No.
<b>The average number of employees during the year was as follows:</b>		
Research	78	68
Other	11	8
	<u>89</u>	<u>76</u>
<b>Staff costs:</b>	<b>£</b>	<b>£</b>
Wages and salaries	6,394,415	5,525,986
Social security costs	766,766	682,315
Other pension costs	258,584	221,425
	<u>7,419,765</u>	<u>6,429,726</u>
<b>Directors emoluments:</b>		
Remuneration	179,840	233,410
Pension contribution	10,522	2,024
	<u>190,362</u>	<u>235,434</u>
<b>Highest paid director:</b>		
Fees and other emoluments	<u>190,362</u>	<u>181,540</u>
<b>Highest paid director:</b>		
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 (2003: one). The two directors (2003: 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 (2003: £nil).

**4. OPERATING PROFIT**

	2004 £	2003 £
<b>Operating profit is after charging:</b>		
Rentals under other operating leases	1,231,556	1,218,336
Depreciation of tangible fixed assets	<u>496,719</u>	<u>597,090</u>

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



**NOTES TO THE ACCOUNTS**

**53 weeks ended 2 July 2004**

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2004 £	2003 £
Bank interest and charges	1,753	7,380

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2004 £	2003 £
Bank	40,681	22,024
Intercompany	21,316	78,763
	<u>61,997</u>	<u>100,787</u>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2004 £	2003 £
UK corporation tax at 30%	329,775	301,669
Adjustment in respect of priors years – corporation tax	(108,370)	(22,495)
	<u>221,405</u>	<u>279,174</u>
Deferred tax	(84,498)	(95,516)
Adjustment in respect of priors years – deferred tax	1,350	-
	<u>138,257</u>	<u>183,658</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:

	2004 £	2003 £
Profit on ordinary activities before tax	1,643,049	1,417,472
Tax charge on ordinary activities at 30%	492,915	425,242
Permanent adjustments	(245,277)	(219,089)
Capital allowances in excess of depreciation	84,498	95,516
Adjustments in respect of prior years	(108,370)	(22,495)
Current tax charge for the year	<u>221,405</u>	<u>279,174</u>

**NOTES TO THE ACCOUNTS**  
**53 weeks ended 2 July 2004**

**8. TANGIBLE FIXED ASSETS**

	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
<b>Cost</b>				
At 27 June 2003	35,795	1,359,586	1,128,046	2,523,427
Additions	-	190,856	26,317	217,173
Disposals	-	(83,006)	-	(83,006)
	<u>35,795</u>	<u>1,467,436</u>	<u>1,154,363</u>	<u>2,657,594</u>
<b>At 2 July 2004</b>				
<b>Accumulated depreciation</b>				
At 27 June 2003	745	1,165,262	825,688	1,991,695
Charge for the period	2,386	274,604	219,729	496,719
Disposals	-	(83,006)	-	(83,006)
	<u>3,131</u>	<u>1,356,860</u>	<u>1,045,417</u>	<u>2,405,408</u>
<b>At 2 July 2004</b>				
<b>Net book value</b>				
At 2 July 2004	<u>32,664</u>	<u>110,576</u>	<u>108,946</u>	<u>252,186</u>
At 27 June 2003	<u>35,050</u>	<u>194,324</u>	<u>302,358</u>	<u>531,732</u>

**9. DEBTORS**

	2004 £	2003 £
Amounts owed by group undertakings	2,636,931	2,322,295
Corporation tax	421,311	174,041
Prepayments and other debtors	687,760	521,154
	<u>3,746,002</u>	<u>3,017,490</u>

All debtors are due within one year.

**NOTES TO THE ACCOUNTS**

**53 weeks ended 2 July 2004**

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Trade creditors	63,599	152,103
Amounts owed to group undertakings	-	50,110
Other creditors including taxation and social security	1,220,009	1,069,146
Accruals and deferred income	1,505,476	1,136,655
	<u>2,789,084</u>	<u>2,408,014</u>

**11. PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>Deferred taxation £</b>	<b>Vacant Space £</b>	<b>Total £</b>
Balance at 27 June 2003	151,466	49,263	200,729
Additions in the period	-	116,750	116,750
Utilised in the period	-	(14,564)	(14,564)
Credit in the period	(84,498)	-	(84,498)
Adjustment in respect of prior year	1,351	-	1,351
Balance at 2 July 2004	<u>68,319</u>	<u>151,449</u>	<u>219,768</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.

**NOTES TO THE ACCOUNTS**

**53 weeks ended 2 July 2004**

**12. CALLED UP SHARE CAPITAL**

	2004 £	2003 £
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

**13. 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	1,233,814	1,263,814	30,000
Retained profit for the period	-	1,504,792	1,504,792	1,233,814
At the end of the period	30,000	2,738,606	2,768,606	1,263,814

**14. OPERATING LEASE COMMITMENTS**

At 2 July 2004, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2004 £	Other 2004 £	Total 2004 £	Land and buildings 2003 £	Other 2003 £	Total 2003 £
Leases which expire						
Within one year	-	89,537	89,537	26,340	16,172	42,512
Within 2 to 5 years	1,142,019	-	1,142,019	1,142,019	33,805	1,175,824
	1,142,019	89,537	1,231,556	1,168,359	49,977	1,218,336

**15. 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**

**53 weeks ended 2 July 2004**

**16. 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.