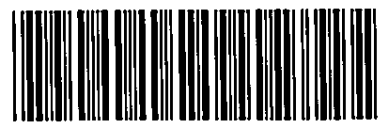


MICROSOFT RESEARCH LIMITED

Report and Financial Statements

53 weeks ended 3 July 2009

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

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

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Berkshire
SL4 1LQ

Citibank NA
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WC2R 1HB

SOLICITORS

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20 Primrose Street
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London
EC2A 2RS

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Shakespeare House
42 Newmarket Road
Cambridge
CB5 8EP

AUDITORS

Deloitte LLP
Reading
United Kingdom

TAX ADVISERS

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 53 week period ended 3 July 2009

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 increased by 13% to £32,445,941 (2008 £28,649,525). The company recorded a loss before taxation of £564,344 (2008 £1,032,493). The directors feel that this leaves them in a sound position for the coming period. Dividends of £8,000,000 were paid in the period (2008 £5,230,826).

The company maintained a strong balance sheet and had net assets at 3 July 2009 of £6,487,229 (2008 £9,712,653).

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.

GOING CONCERN

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.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS

The directors who served during the period and to the date of signing 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 s418 of the Companies Act 2006.

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 29/3 2010

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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 53 weeks ended 3 July 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 3 July 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

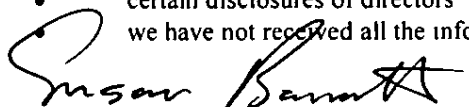
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Susan Barratt BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
29 March 2010

MICROSOFT RESEARCH LIMITED

PROFIT AND LOSS ACCOUNT

53 weeks ended 3 July 2009

	Note	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
TURNOVER	2	32,445,941	28,649,525
Administrative expenses		<u>(33,201,529)</u>	<u>(28,192,554)</u>
OPERATING LOSS / (PROFIT)	4	(755,588)	456,971
Interest payable and similar charges	5	(1,134)	(4,626)
Interest receivable and similar income	6	<u>192,378</u>	<u>580,148</u>
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(564,344)	1,032,493
Tax credit on profit on ordinary activities	7	<u>2,191,020</u>	<u>1,708,390</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	15	<u>1,626,676</u>	<u>2,740,883</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 3 July 2009

	Note	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
FIXED ASSETS			
Tangible fixed assets	9	1,558,518	1,930,160
Investments	10	8,479	8,479
		<u>1,566,997</u>	<u>1,938,639</u>
CURRENT ASSETS			
Debtors	11	13,476,213	13,395,875
Cash at bank and in hand		-	3,181,681
		<u>13,476,213</u>	<u>16,577,556</u>
CREDITORS: amounts falling due within one year	12	<u>(8,555,981)</u>	<u>(8,803,542)</u>
NET CURRENT ASSETS		<u>4,920,232</u>	<u>7,774,014</u>
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		<u>6,487,229</u>	<u>9,712,653</u>
CAPITAL AND RESERVES			
Called up share capital	14	30,000	30,000
Profit and loss account	15	<u>6,457,229</u>	<u>9,682,653</u>
SHAREHOLDERS' FUNDS	15	<u>6,487,229</u>	<u>9,712,653</u>

The financial statements of Microsoft Research Limited, Registered Number 03369488, were approved by the Board of Directors on *29 March* 2010

Signed on behalf of the Board of Directors


A Herbert
Director

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

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.

Going concern

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.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Share-based payments

The Microsoft group operates a number of share-based payment arrangements.

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.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

1. ACCOUNTING POLICIES (continued)

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

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

53 weeks ended 3 July 2009

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
The average number of employees (including directors) during the year was as follows:		
Research	137	121
Other	26	26
	<u>163</u>	<u>147</u>
Staff costs:		
		£
Wages and salaries	12,701,144	11,336,961
Social security costs	1,109,606	1,850,679
Other pension costs	699,576	556,733
Share-based payments charge	3,147,900	2,537,006
	<u>17,658,226</u>	<u>16,281,379</u>
Directors emoluments:		
	£	£
Remuneration	234,667	245,307
Pension contribution	21,390	12,233
	<u>256,057</u>	<u>257,540</u>
Highest paid director		
	£	£
Fees and other emoluments	256,057	257,540

Contributions were made to a defined contribution pension scheme on behalf of one director (2008 one) The other two directors (2008 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 (2008 £nil)

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

4. OPERATING PROFIT

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
Operating profit is stated after charging:		
Rentals under other operating leases		
- plant and machinery	17,688	25,639
- other	1,345,555	1,367,054
Depreciation of tangible fixed assets	868,943	727,437
Auditors' remuneration – audit services	19,515	18,278
	<u>1,391,101</u>	<u>1,418,370</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
Bank interest and charges	<u>1,134</u>	<u>4,626</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
Bank interest receivable	23,879	53,547
Other interest receivable	18,443	-
Interest received from group undertakings	150,056	526,601
	<u>192,378</u>	<u>580,148</u>

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

7. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
UK corporation tax	(957,996)	(1,164,675)
Adjustment in respect of prior years – current tax	(759,456)	(306,783)
Total Current tax credit for the period	(1,717,452)	(1,471,458)
Deferred tax credit – current year	(473,568)	(236,932)
Total deferred credit for the period	(473,568)	(236,932)
Total tax credit for the period	(2,191,020)	(1,708,390)

The average standard rate of current tax for the period, based on the UK standard rate of corporation tax is 28% (2008 29.5%). The current tax charge for the period differs from 28% (2008 29.5%) for the reasons set out in the following reconciliation

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
(Loss) / profit on ordinary activities before tax	(564,344)	1,032,493
Tax charge on ordinary activities at 28% (2008 29.5%)	(158,016)	304,585
Permanent adjustments	70,000	(497,766)
Differences between depreciation and capital allowances	103,473	(203,317)
R&D tax credit	(952,000)	(815,347)
Other timing differences	(21,453)	47,170
Adjustments in respect of prior years	(759,456)	(306,783)
Current tax credit for the year	(1,717,452)	(1,471,458)

8. DIVIDENDS

	53 weeks ended 3 July 2009 £	52 weeks ended 27 June 2008 £
Dividends proposed and paid in the year (£266.66 per share, 2008 £174.36 per share)	8,000,000	5,230,826

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS 53 weeks ended 3 July 2009

9 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost				
At 27 June 2008	1,418,824	2,422,528	1,922,753	5,764,105
Additions	30,119	461,774	8,908	500,801
Disposals	-	(3,500)	-	(3,500)
3 July 2009	<u>1,448,943</u>	<u>2,880,802</u>	<u>1,931,661</u>	<u>6,261,406</u>
Accumulated depreciation				
At 27 June 2008	498,281	1,883,115	1,452,549	3,833,945
Charge for the period	282,570	361,773	224,600	868,943
Disposals	-	-	-	-
At 3 July 2009	<u>780,851</u>	<u>2,244,888</u>	<u>1,677,149</u>	<u>4,702,888</u>
Net book value				
At 3 July 2009	<u>668,092</u>	<u>635,914</u>	<u>254,512</u>	<u>1,558,518</u>
At 27 June 2008	<u>920,543</u>	<u>539,413</u>	<u>470,204</u>	<u>1,930,160</u>

10. INVESTMENTS

	2009 £	2008 £
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

	2009 £	2008 £
Amounts owed by group undertakings	8,586,425	9,927,164
Corporation tax	3,219,636	2,250,495
Deferred tax asset (note 13)	1,112,105	638,537
Prepayments and accrued income	558,047	579,679
	<u>13,476,213</u>	<u>13,395,875</u>

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

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £	2008 £
Trade creditors	361,648	350,294
Other creditors including taxation and social security	363,343	904,757
Accruals and deferred income	7,080,317	7,548,491
Bank	750,673	-
	<u>8,555,981</u>	<u>8,803,542</u>

Included in other creditors is £363,343 (2008 £817,639) in respect of tax and social security

The company is part of a group banking arrangement whereby all cash balances are swept overnight into a bank account held by another group company. The bank liability shown above represents uncleared payments as at 3 July 2009.

13. DEFERRED TAX ASSET

	2009 £	2008 £
The deferred tax provision comprises of		
Capital allowances taken in excess of depreciation	(435,331)	(538,804)
Share-based payments	1,547,436	1,177,341
	<u>1,112,105</u>	<u>638,537</u>

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

Balance at 27 June 2008	638,537
Credited to profit and loss account in the period	473,568
Balance at 3 July 2009	<u>1,112,105</u>

14. CALLED UP SHARE CAPITAL

	2009 £	2008 £
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>

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

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 2009 £	Shareholders' funds 2008 £
Profit for the financial period	-	1,626,676	1,626,676	2,740,883
Dividend paid	-	(8,000,000)	(8,000,000)	(5,230,826)
Share-based payment – contribution received	-	3,147,900	3,147,900	2,537,006
Net (reduction) / addition to shareholder's funds	-	(3,225,424)	(3,225,424)	47,063
Opening shareholder's funds	30,000	9,682,653	9,712,653	9,665,590
Closing shareholder's funds	30,000	6,457,229	6,487,229	9,712,653

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

	2009	2008
Number of share awards	-	-
Weighted average exercise price (in £)	-	-
Outstanding at beginning of period	475,955	361,082
Granted during the period	280,337	224,604
Forfeited during the period	(2,721)	(4,786)
Exercised during the period	(139,754)	(104,945)
Expired during the period	-	-
Outstanding at the end of the period	613,817	475,955
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards vested during the period ended 3 July 2009 was \$26.02 (period ended 27 June 2008 \$29.19).

In both the periods ended 3 July 2009 and 27 June 2008, awards were granted on numerous dates. The aggregate of the estimated fair values of the options granted on those dates was £3,881,680 (2008 £2,762,887).

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 £2,513,511 and £1,801,864 related to stock award transactions during 2009 and 2008 respectively.

NOTES TO THE ACCOUNTS

53 weeks ended 3 July 2009

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 £634,389 and £729,162 related to SPSA transactions during 2009 and 2008 respectively.

Legacy Share-based Payment Schemes

The company recognised a further £nil (2008: £5,980) 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 3 July 2009, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2009 £	Other 2009 £	Total 2009 £	Land and buildings 2008 £	Other 2008 £	Total 2008 £
Leases which expire						
Within one year	1,370,420	24,129	1,394,549	29,700	130	29,830
Within 2 to 5 years	-	-	-	1,315,855	17,558	1,333,413
	<u>1,370,420</u>	<u>24,129</u>	<u>1,394,549</u>	<u>1,345,555</u>	<u>17,688</u>	<u>1,363,243</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.