

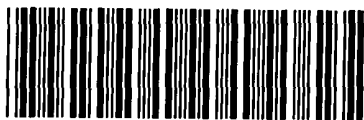
**Company Registration No. 03369488**

**MICROSOFT RESEARCH LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2015**

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# **MICROSOFT RESEARCH LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2015**

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# **MICROSOFT RESEARCH LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2015**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

K R Dolliver  
B Orndorff

#### **SECRETARY**

RB Secretariat Ltd

#### **REGISTERED OFFICE**

21 Station Road  
Cambridge  
CB1 2FB

#### **BANKERS**

Citibank NA  
CGC, Canada Square,  
Canary Wharf  
London  
E14 5LB

#### **SOLICITORS**

Reed Smith  
The Broadgate Tower  
20 Primrose Street  
London  
EC2A 2RS

Hewitson Becke & Shaw  
Shakespeare House  
42 Newmarket Road  
Cambridge  
CB5 8EP

#### **AUDITOR**

Deloitte LLP  
Chartered Accountant and Statutory Auditor  
Cambridge  
United Kingdom

#### **TAX ADVISERS**

KPMG LLP  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

# MICROSOFT RESEARCH LIMITED

## STRATEGIC REPORT

The directors present their Strategic Report for Microsoft Research Limited ("the Company") for the year ended 30 June 2015.

### ACTIVITIES

Microsoft Research Limited, a subsidiary of Microsoft Corporation, is engaged in computer science research. The principal area of business activity is the United Kingdom.

### BUSINESS REVIEW

The results for the year are shown on page 7. The company recorded a loss before taxation of £1,166,048 (2014: £1,351,308 loss). Despite the loss, the Directors feel that the Company is in a sound position for the coming period.

The company maintained a strong balance sheet and had net assets at 30 June 2015 of £26,593,906 (2014: £21,152,770).

The key performance indicator for the company is based on return on employee investment as this is the main contributor to costs. The company is committed to ensuring all employees are focused on the overall group strategy, and as such employee involvement is a key focus for the company: refer to "Employee involvement" paragraph in the Directors' Report.

### STRATEGY, OBJECTIVES AND BUSINESS MODEL

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2015, which are publicly available. Microsoft Research Limited's business model is expected to remain as it continues to provide researching services to Microsoft.

### 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.

#### Credit risk

The company's principal financial assets are bank balances, trade and other debtors.

The company has low credit risk in relation to its trade debtors, as they are due from Microsoft Group companies. The amounts presented in the balance sheet are net of allowances for doubtful debts.

#### Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the company relies on support from its parent company, Microsoft Corporation.

#### Market risk

The company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and to wider long-term research trends.

The company and group continue to invest in attracting and retaining high-calibre individuals and in new research to mitigate these risks.

Approved by the Board and signed on behalf of the board on 30 March 2016.

B Orndorff  
Director



# **MICROSOFT RESEARCH LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2015.

### **DIVIDENDS**

No dividends were paid in the year (2014: nil).

### **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. Microsoft Corporation (the ultimate parent company) has agreed to provide financial support as and when required to enable the Company to meet its external obligation. On this basis, the directors consider it appropriate to adopt the going concern basis in preparing the annual report and accounts. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

### **FUTURE PROSPECTS**

The Microsoft Group continues to invest in research activities. The Directors feel that the Company is in a sound position for the coming period.

### **DIRECTORS**

The directors who served during the period and to the date of signing are shown on page 1.

### **EMPLOYEE INVOLVEMENT**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, the company magazine and a special edition for employees of the annual financial statements.

### **EMPLOYMENT OF DISABLED PERSONS**

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the Group and the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **AUDITOR**

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 auditor is 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 auditor is aware of that information.

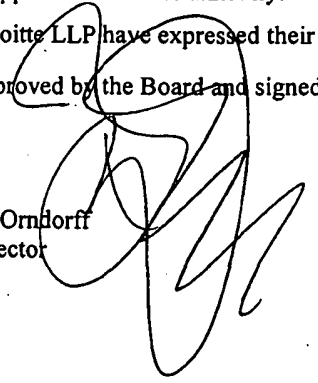
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Pursuant to S485-488 Companies Act 2006, an elective resolution has been passed dispensing with the requirement to appoint the auditor annually.

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board and signed on behalf of the board on 30 March 2016.

B Orndorff  
Director



## **MICROSOFT RESEARCH LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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 judgements 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 AUDITOR'S REPORT TO THE MEMBERS OF MICROSOFT RESEARCH LIMITED

We have audited the financial statements of Microsoft Research Limited for the year ended 30 June 2015 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 21. 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 auditor's 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 auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 30 June 2015 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.

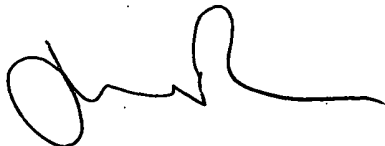
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.



Julian Rae  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, United Kingdom

30 March 2015

# MICROSOFT RESEARCH LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 30 June 2015

	Note	2015 £	2014 £
<b>TURNOVER</b>	2	39,517,296	38,637,679
Administrative expenses		<u>(40,687,309)</u>	<u>(39,981,233)</u>
<b>OPERATING LOSS</b>	4	(1,170,013)	(1,343,554)
Interest payable and similar charges	5	(2,356)	(9,776)
Interest receivable and similar income	6	<u>6,321</u>	<u>2,022</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,166,048)	(1,351,308)
Tax credit on profit on ordinary activities	7	<u>1,771,147</u>	<u>2,417,543</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	17	<u><u>605,099</u></u>	<u><u>1,066,235</u></u>

All amounts derive from continuing operations.

The notes on pages 9 to 18 form an integral part of these financial statements.

There were no recognised gains and losses in the current or prior year 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

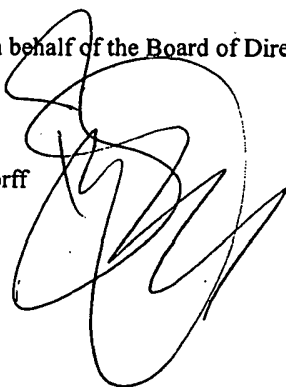
## BALANCE SHEET As at 30 June 2015

	Note	30 June 2015 £	30 June 2014 £
<b>FIXED ASSETS</b>			
Tangible assets	9	14,068,111	15,555,065
Investments	10	8,479	8,479
		<u>14,076,590</u>	<u>15,563,544</u>
<b>CURRENT ASSETS</b>			
Debtors	11	22,788,640	15,420,174
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(7,814,158)</u>	<u>(7,045,361)</u>
<b>NET CURRENT ASSETS</b>		<u>14,974,482</u>	<u>8,374,813</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		29,051,072	23,938,357
<b>PROVISION FOR LIABILITIES</b>	14	(1,180,125)	(1,161,075)
<b>CREDITORS: amounts falling due after more than one year</b>	15	<u>(1,277,040)</u>	<u>(1,624,512)</u>
<b>NET ASSETS</b>		<u>26,593,906</u>	<u>21,152,770</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	30,000	30,000
Profit and loss account	17	<u>26,563,906</u>	<u>21,122,770</u>
<b>SHAREHOLDER'S FUNDS</b>	17	<u>26,593,906</u>	<u>21,152,770</u>

The financial statements of Microsoft Research Limited, Registered Number 03369488, were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors

B Orndorff  
Director



# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

### 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 years.

#### 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. Microsoft Corporation (the ultimate parent company) has agreed to provide financial support as and when required to enable the Company to meet its external obligation. On this basis, the directors consider it appropriate to adopt the going concern basis in preparing the annual report and accounts. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Share-based payments

The Microsoft group operates a number of equity settled 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 18 for details of how the fair value of awards is determined.

#### Cash flow statement

Under FRS1 "Cash flow statements" the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

#### 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. Depreciation is charged once an asset is in use in line with FRS 15 'Tangible fixed assets'. The rates of depreciation are as follows:

Leasehold improvements	Over the period of the lease
Computer equipment	33% per annum
Fixtures, fittings and telecoms equipment	33% per annum

#### 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 and finance leases are charged to the profit and loss account in equal annual amounts over the period of the lease, even if the payments are not made on such a basis.

#### Provisions

Provisions are recognised when the company has a present obligation in respect of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered to be material.

# **MICROSOFT RESEARCH LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 30 June 2015**

### **1. ACCOUNTING POLICIES (continued)**

#### **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 taxation is recognised without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### **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. Differences between contributions payable on the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **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. The turnover is stated at cost plus ten percent. Turnover is recognised on an accruals basis.

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2015	2014
The average number of employees (including directors) during the year was as follows:		
Research	101	155
Other	29	27
	<u>130</u>	<u>182</u>
Staff costs:		
	£	£
Wages and salaries	16,204,419	17,016,339
Social security costs	3,110,036	3,252,864
Other pension costs	1,670,340	1,679,278
Share-based payments charge	4,836,037	5,059,483
	<u>25,820,832</u>	<u>27,007,964</u>

No contributions were made to a defined contribution pension scheme on behalf of the directors (2014: none). The other directors (2014: 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 (2014: £nil).

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 4. OPERATING LOSS

	2015 £	2014 £
Operating loss is stated after charging/ crediting:		
Rentals under other operating leases:		
- plant and machinery	346	(321)
- other	2,315,282	2,470,011
Depreciation of tangible fixed assets	1,968,380	1,808,223
Research and development expenditure	519,588	680,589
Foreign exchange (gain) / loss	(25,472)	72,138
Auditor's remuneration – audit services	19,560	31,454
	<u>          </u>	<u>          </u>

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £	2014 £
Interest payable for group undertakings	<u>2,356</u>	<u>9,776</u>

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £	2014 £
Interest received from group undertakings	<u>6,321</u>	<u>2,022</u>

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 7. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	2015 £	2014 £
UK corporation tax	1,015,998	701,328
Adjustment in respect of prior years – current tax	407,677	1,664,892
<b>Total current tax credit for the period</b>	<b>1,423,675</b>	<b>2,366,220</b>
Deferred tax charge – current year	292,073	61,475
Deferred tax charge – prior year	55,399	(10,152)
<b>Total deferred charge for the period</b>	<b>347,472</b>	<b>51,323</b>
<b>Total tax credit for the period</b>	<b>1,771,147</b>	<b>2,417,543</b>

The average standard rate of current tax for the period, based on the UK standard rate of corporation tax is 20.75% (2014: 22.5%). The current tax charge for the period differs from 20.75% (2014: 22.5%) for the reasons set out in the following reconciliation:

	2015 £	2014 £
Loss on ordinary activities before tax	(1,166,048)	(1,351,308)
Tax credit on ordinary activities at 20.75% (2014: 22.5%)	(241,955)	(304,044)
Permanent adjustments	(1,056,499)	(481,556)
Differences between depreciation and capital allowances	284,669	112,488
R&D tax credit	-	-
Other timing differences	(2,213)	(28,216)
Adjustments in respect of prior years	(407,677)	(1,664,892)
<b>Current tax credit for the year</b>	<b>(1,423,675)</b>	<b>(2,366,220)</b>

### 8. DIVIDENDS

	2015 £	2014 £
No dividends were proposed or paid in the relevant years	-	-

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 9. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
<b>Cost</b>				
At 1 July 2014	13,922,975	4,935,326	2,581,324	21,439,625
Additions	7,120	345,362	128,944	481,426
Transfers	-	(217,553)	217,553	-
At 30 June 2015	13,930,095	5,063,135	2,927,821	21,921,051
<b>Accumulated depreciation</b>				
At 1 July 2014	1,067,713	3,463,751	1,353,096	5,884,560
Charge for the period	741,297	431,979	795,104	1,968,380
Transfers	-	(137,859)	137,859	-
At 30 June 2015	1,809,010	3,757,871	2,286,059	7,852,940
<b>Net book value</b>				
At 30 June 2015	12,121,085	1,305,264	641,762	14,068,111
At 30 June 2014	12,855,262	1,471,575	1,228,228	15,555,065

### 10. INVESTMENTS

	2015 £	2014 £
Cost and net book value	8,479	8,479

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

	2015 £	2014 £
Amounts from group undertakings	9,976,772	175,877
Prepayments and accrued income	942,011	1,621,882
Corporation tax	7,857,075	11,056,633
Research and Development Credit	4,012,782	2,565,782
	22,788,640	15,420,174

All debtors are due within one year.

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

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

	2015 £	2014 £
Bank loans and overdraft	-	21,179
Trade creditors	171,916	1,439,453
Other creditors including taxation and social security	263,947	275,168
Accruals and deferred income	7,378,295	5,309,561
	<u>7,814,158</u>	<u>7,045,361</u>

Included in other creditors are amounts totalling £168,990 (2014: £183,704) in respect of tax and social security and £nil (2014: £nil) in respect of unpaid pension contributions.

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 30 June 2015.

### 13. DEFERRED TAX LIABILITY

	2015 £	2014 £
The deferred tax provision comprises of:		
Capital allowances taken in excess of depreciation	(2,624,598)	(2,962,266)
Share-based payments	1,363,736	1,337,754
Short term timing differences	(16,178)	-
	<u>(1,277,040)</u>	<u>(1,624,512)</u>
The movement in deferred tax asset during the period was as follows:		
Balance at 30 June 2014	(1,624,512)	(1,675,835)
Charge to profit and loss account in the period	292,073	61,475
Charge to profit and loss account in the prior period	55,399	(10,152)
Balance at 30 June 2015	<u>(1,277,040)</u>	<u>(1,624,512)</u>

The Finance Act 2015, which provides for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2016, to 19% effective from 1 April 2017 and 18% effective from 1 April 2020 was substantively enacted on 8 July 2015. At the Summer Budget 2015 These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.



# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 14. PROVISIONS FOR LIABILITIES

	Dilapidations £
Balance at 1 July 2014	1,161,075
Charged to the profit and loss in the period	138,170
Released to the profit and loss in the period	(119,120)
	<hr/>
Balance at 30 June 2015	1,180,125
	<hr/>

The provision for dilapidations was built up to provide for potential charges at the end of the lease period on rental properties. The lease expired in a prior year and a final negotiated value was determined which was paid in July 2015.

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015 £	2014 £
Deferred tax liability (note 13)	(1,277,040)	(1,624,512)
	<hr/>	<hr/>

### 16. CALLED UP SHARE CAPITAL

	2015 £	2014 £
Authorised 200,000 ordinary shares of £1 each	200,000	200,000
	<hr/>	<hr/>
Called up, allotted and fully paid 30,000 £1 ordinary shares	30,000	30,000
	<hr/>	<hr/>

### 17. COMBINED STATEMENT OF MOVEMENT IN RESERVES AND LOSSES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	Called up share capital £	Profit and loss account £	Shareholder's funds 2015 £	Shareholder's funds 2014 £
(Loss)/profit for the financial year	-	605,099	605,099	1,066,235
Share-based payment – contribution received	-	4,836,037	4,836,037	5,059,483
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholder's funds	-	5,441,136	5,441,136	6,125,718
Opening shareholder's funds	30,000	21,122,770	21,152,770	15,027,052
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholder's funds	30,000	26,593,906	26,593,906	21,152,770
	<hr/>	<hr/>	<hr/>	<hr/>

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 18. SHARE BASED PAYMENTS

#### Stock Awards

The Microsoft Corporation 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:

	2015	2014
Number of share awards		
Weighted average exercise price (in £)	28.53	15.16
Outstanding at beginning of period	949,299	1,023,031
Granted during the period	253,681	326,435
Forfeited during the period	(24,628)	(31,653)
Exercised during the period	(358,232)	(365,613)
Expired during the period	-	-
Cancelled	-	-
Transferred In	11,798	43,451
Transferred Out	(61,681)	(46,449)
Adjustments	-	7
Outstanding at the end of the period	<u>770,237</u>	<u>949,299</u>

The estimated average share price at the date share awards exercised during the period ended 30 June 2015 was \$45.27 (year ended 30 June 2014: \$24.56).

In both the year ended 30 June 2015 and 30 June 2014, awards were granted on numerous dates. The aggregate of the estimated fair values of the options granted on those dates was £7,194,421 (2014: £5,059,485).

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 profit and loss account expenses of £4,074,917 and £4,089,309 related to stock award transactions during 2015 and 2014 respectively. Refer to Note 17 for the equity impact of the awards.

#### 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 £732,656 and £940,291 related to SPSA transactions during 2015 and 2014 respectively. Refer to Note 17 for the equity impact of the awards.

#### Employee share purchase plan

The company recognised a further £28,463 (2014: £29,884) relating to employee share purchase plan during this year.

#### Legacy Share-based Payment Schemes

The company recognised no expense (2014: £nil) relating to historic share option schemes. No new awards were made under these schemes during the current or preceding financial period. Refer to Note 17 for the equity impact of the awards.

# MICROSOFT RESEARCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 19. OPERATING LEASE COMMITMENTS

At 30 June 2015, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2015 £	Land and buildings 2014 £
Leases which expire After 5 years	2,403,256	2,403,256
	<u>2,403,256</u>	<u>2,403,256</u>

### 20. 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 Research Limited, which is the smallest company preparing group accounts which include the results of the company.

### 21. 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.