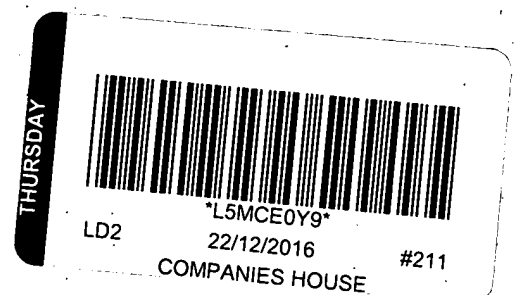


Company Registration No. 03369488

MICROSOFT RESEARCH LIMITED

**Report and Financial Statements
Year ended 30 June 2016**



MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

K R Dolliver
B O Orndorff

SECRETARY

RB Secretariat Ltd

REGISTERED OFFICE

21 Station Road
Cambridge
CB1 2FB

BANKERS

Citibank, N.A.
CGC, Canada Square,
Canary Wharf
London
E14 5LB

SOLICITORS

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

MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS (continued)

SOLICITORS (continued)

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

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge
United Kingdom

TAX ADVISERS

KPMG LLP
Arlington Business Park
Theale
Berkshire
RG7 4SD

MICROSOFT RESEARCH LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 June 2016.

ACTIVITIES

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

BUSINESS REVIEW

The results for the year are shown on page 8. The company recorded a loss before taxation of £1,521,780 (2015: £1,219,812 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 2016 of £31,402,544 (2015: £26,860,898).

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 2016, 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 ongoing 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 wider long-term market 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 of Directors
and signed on behalf of the Board


K R Dolliver
Director

Date 19 December 2016

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

DIVIDENDS

No dividends were paid in the year (2015: £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 company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing the financial statements.

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.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. These are detailed in the Strategic Report.

FUTURE PROSPECTS

The company will continue to support other group companies and in view of the current economic climate, the board is looking forward to sustaining the level of revenue and profits in the following years.

DIRECTORS

The directors who served during the year and up to the date of this report unless otherwise stated are shown on page 1.

EMPLOYEE CONSULTATION

The Group 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 Group and the Company. This is achieved through formal and informal meetings.

DISABLED EMPLOYEES

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 Group 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.

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT (continued)

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.

Deloitte LLP have expressed their willingness to continue in office as auditor. The company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board of Directors
and signed on behalf of the Board


K R Dolliver

Director

Date 19 December 2016

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 including FRS 101 Reduced Disclosure Framework. 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 2016 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of 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 30 June 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework; 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, UK
Date

20 December 2016

MICROSOFT RESEARCH LIMITED**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME**

Year ended 30 June 2016

	Note	2016 £'000	2015 restated £'000
TURNOVER	2	38,846	39,517
GROSS PROFIT		38,846	39,517
Distribution costs		(316)	-
Administrative expenses		(40,072)	(40,741)
OPERATING LOSS	4	(1,541)	(1,224)
Interest receivable and similar income	5	20	6
Interest payable and similar charges	6	-	(2)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,522)	(1,220)
Credit on loss on ordinary activities	7	208	1,066
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(1,314)	(154)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(1,314)	(154)

All amounts derive from continuing operations.

There was no other comprehensive income or expenses other than those shown in the Profit and Loss Account and Other Comprehensive Income above.

MICROSOFT RESEARCH LIMITED

BALANCE SHEET
30 June 2016

	Note	2016 £'000	2015 restated £'000
FIXED ASSETS			
Tangible assets	8	13,512	14,068
Investments	9	8	8
		<u>13,520</u>	<u>14,076</u>
CURRENT ASSETS			
Debtors	10	23,505	14,932
Corporation tax		4,732	7,857
		<u>28,237</u>	<u>22,789</u>
CREDITORS			
Creditors: amounts falling due within one year	11	(6,847)	(6,116)
		<u>(6,847)</u>	<u>(6,116)</u>
NET CURRENT ASSETS		<u>21,390</u>	<u>16,673</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>34,910</u>	<u>30,749</u>
CREDITORS: amounts falling due in more than one year			
Deferred tax liability	12	(574)	(628)
Provisions for liabilities	13	(2,934)	(3,260)
		<u>31,402</u>	<u>26,861</u>
NET ASSETS		<u>31,402</u>	<u>26,861</u>
CAPITAL AND RESERVES			
Called up share capital	15	30	30
Profit and loss account		31,372	26,831
		<u>31,402</u>	<u>26,861</u>
SHAREHOLDERS' FUNDS		<u>31,402</u>	<u>26,861</u>

The financial statements of Microsoft Research Limited, registration number 03369488, were approved and authorised for issue by the Board of Directors on 19 December 2016

Signed on behalf of the Board of Directors


K R Dolliver
Director

MICROSOFT RESEARCH LIMITED
STATEMENT OF CHANGES IN EQUITY

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 July 2014 restated	30	21,561	21,591
Total comprehensive expense for the year			
Profit or loss for the year	-	(154)	(154)
Total comprehensive expense for the year	-	(154)	(154)
Equity settled share based payments transactions	-	588	588
Share based payment - contribution received	-	4,836	4,836
Total contributions by and distributions to owners	-	5,424	5,424
Balance at 30 June 2015 restated	30	26,831	26,861

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 July 2015	30	26,831	26,861
Total comprehensive expense for the year			
Profit or loss for the year	-	(1,314)	(1,314)
Total comprehensive expense for the year	-	(1,314)	(1,314)
Equity settled share based payments transactions	-	579	579
Share based payment - contribution received	-	5,276	5,276
Total contributions by and distributions to owners	-	5,855	5,855
Balance at 30 June 2016	30	31,372	31,402

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES

Microsoft Research Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 July 2014.

The Company's ultimate parent undertaking, Microsoft Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of Microsoft Corporation are prepared in accordance with US generally accepted accounting principles (GAAP) and are available to the public and may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy (see note 20); and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Microsoft Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES (continued)

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 July 2014 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The company had a loss after tax in the year of £1,314k (2015: 154k) but was supported by a net asset position of £31,402k (2015: 26,861k).

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 company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing the financial statements.

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.

Where the Company's parent Company has granted rights to its equity instruments to employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. In such instances a capital contribution is recognised to the extent that the Company is not recharged by its parent.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Refer to note 16 for details of how the fair value of awards is determined.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight-line basis over their expected useful lives at the following rates:

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

Residual value is calculated on prices prevailing at the date of acquisition.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES (continued)

Investments

Investments are stated at cost, less any provision for impairment. The company has one investment, as described in note 9. 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.

Lease incentives are considered as part of the overall cost of the lease and amortised straight line over the period of the lease.

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.

Pension scheme

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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively 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.

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provision of the instrument. Because of their short term nature the carrying amount of trade receivables and trade payables approximates their fair value. Trade receivables and payables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment. Cash and cash equivalents include cash at bank and in hand.

Research and development expenditure

Expenditure on research is written off in the period in which it is incurred. Development costs are assessed against IAS 38 criteria and subsequently expensed or capitalised as appropriate.

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.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies during the year are translated into sterling 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 rates of exchange at the balance sheet date. All exchange gains and losses are taken to the profit and loss account.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors believe there are no critical accounting judgements and no key sources of estimation uncertainty.

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.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2016 No.	2015 No.
Average number of persons employed		
Research	101	101
Other	29	29
	<u>130</u>	<u>130</u>
	2016	2015
	£'000	£'000
Staff costs		
Wages and salaries	16,982	16,204
Social security costs	3,227	3,110
Pension	1,641	1,670
Share-based payments charge	5,276	4,836
	<u>27,126</u>	<u>25,820</u>

None of the directors received any remuneration in respect of qualifying services as directors of the Company in the current period or in the prior period as none of the directors have any employment contracts with the Company. No contributions were made to a defined contribution pension scheme on behalf of the directors (2015: none).

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2016

4. OPERATING LOSS

	2016 £'000	2015 £'000
Operating loss is stated after charging/(crediting)		
Rentals under operating leases		
- other operating leases	2,397	2,316
Depreciation - owned assets	1,900	1,968
Foreign exchange (gain) or loss	12	(25)
Research and development expenditure	751	520
Auditor's remuneration:		
- audit services	22	20
	<u>22</u>	<u>20</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Interest receivable from fellow group undertakings	20	6
	<u>20</u>	<u>6</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest payable on loans to parent company	-	2
	<u>-</u>	<u>2</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
United Kingdom corporation tax	(184)	(300)
Adjustment in respect of prior years	67	(408)
	<u>(117)</u>	<u>(708)</u>
Total current tax	(117)	(708)
Deferred tax - current year	(63)	(303)
Deferred tax- prior year adjustment	(28)	(55)
	<u>(208)</u>	<u>(1,066)</u>
Total tax credit for the year	208	1,066

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

7. TAX ON LOSS ON ORDINARY ACTIVITIES (Continued)

Reconciliation to total tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.00% (2015: 20.75%). The actual tax credit for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	2016 £'000	2015 £'000
Loss on ordinary activities before tax	(1,522)	(1,220)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.75%)	(446)	(253)
Effects of:		
Tax credit on ordinary activities at 20.00%	-	-
Depreciation on non-qualifying assets	25	(25)
Permanent adjustments	371	20
Short-term timing differences	16	17
Share schemes	(213)	(361)
Prior year adjustment	39	(464)
Total tax credit	<u>(208)</u>	<u>(1,066)</u>

8. TANGIBLE FIXED ASSETS

	Fixtures, fittings and telecoms equipment £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 July 2015	2,928	5,063	13,930	21,921
Additions	231	795	326	1,352
Disposals	(181)	(2,796)	-	(2,977)
At 30 June 2016	<u>2,978</u>	<u>3,062</u>	<u>14,256</u>	<u>20,296</u>
Accumulated depreciation				
At 1 July 2015	2,286	3,758	1,809	7,853
Charge for the year	450	705	745	1,900
Disposals	(173)	(2,796)	-	(2,969)
At 30 June 2016	<u>2,563</u>	<u>1,667</u>	<u>2,554</u>	<u>6,784</u>
Net book value				
At 30 June 2016	<u>415</u>	<u>1,395</u>	<u>11,702</u>	<u>13,512</u>
At 30 June 2015	<u>642</u>	<u>1,305</u>	<u>12,121</u>	<u>14,068</u>

MICROSOFT RESEARCH LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 30 June 2016

9. INVESTMENTS

	2016 £'000	2015 £'000
Cost and net book value	8	8

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.

10. DEBTORS

	2016 £'000	2015 £'000
Amounts owed by fellow group undertakings	15,949	9,977
Other debtors	346	-
Prepayments and accrued income	706	942
Research and Development Credit	6,504	4,013
	<u>23,505</u>	<u>14,932</u>

Interest is received on amounts owed by group undertakings, except short-term trading balances, using a Reuter's 12-month interest rate at 0.6725% (2015: 0.6900%).

Intercompany debtors are repayable on demand. All amounts are due within one year.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Bank overdraft	51	-
Trade creditors	1,025	172
Other creditors including taxation and social security	398	264
Accruals and deferred income	5,373	5,680
	<u>6,847</u>	<u>6,116</u>

Included in other creditors are amounts totalling £190k (2015: £169k) in respect of tax and social security and £Nil (2015: £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 2016.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

12. DEFERRED TAX

The deferred tax liability consists of the following amounts:

	2016 £'000	2015 £'000
Timing differences in respect of capital allowances	2,369	2,641
Share-based payments	(1,795)	(1,936)
Short term timing differences	-	(77)
	<u>574</u>	<u>628</u>
		£'000
Balance at 1 July 2015		628
Charged to the profit and loss in the year		(63)
Charged to equity in the year		37
Prior year deferred tax adjustment		(28)
Balance at 30 June 2016		<u>574</u>

The Finance Act 2016, 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 17% effective from 1 April 2020 was substantively enacted on 15 September 2016. 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.

13. PROVISIONS FOR LIABILITIES

	Dilapidations £'000	Onerous leases £'000	Other £'000	Total £'000
Balance at 1 July 2015	1,180	-	2,080	3,260
Charged to the profit and loss in the year	138	-	499	637
Utilised in the year	(964)	-	-	(963)
Balance at 30 June 2016	<u>354</u>	<u>-</u>	<u>2,579</u>	<u>2,934</u>

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.

Other provisions relate to National Insurance Contributions (NIC) which will become payable on the vesting of share awards. The share awards vest over a 5 year period. Employees do not make any payment for the share awards. The provision has been calculated based on the share price at the balance sheet date of \$51.17 and the rate of NIC is 13.8%.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £'000	2015 £'000
Deferred tax liability (note 12)	574	628

15. CALLED UP SHARE CAPITAL

	2016 £'000	2015 £'000
Authorised, called up, allotted and fully paid 30,000 ordinary shares of £1 each	30	30
Authorised 200,000 authorised shares of £1 each	200	200

16. SHARE BASED PAYMENTS

The group has an equity settled share 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:

	2016	2015
Number of share awards	596,150	770,237
Outstanding at beginning of year	770,237	949,299
Granted during the year	269,390	253,681
Forfeited during the year	(120,503)	(24,628)
Exercised during the year	(306,433)	(358,232)
Transferred In	4,257	11,798
Transferred Out	(20,798)	(61,681)
Outstanding at the end of the year	596,150	770,237

The estimated average share price at the date share awards vested during the year ended 30 June 2016 was \$45.49 (2015: \$45.27).

The unvested awards as at 30 June 2016 had a weighted average remaining contractual life of Nil years (2015: Nil years).

In both 2016 and 2015 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £8.2m (2015: £7.2m).

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 £4.4m and £4.1m in relation to share award transactions during 2016 and 2015 respectively.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

16. SHARE BASED PAYMENTS (Continued)

Please refer to the Microsoft Corporation Form 10-K for details of the model and the assumptions used.

Shared Performance Share Awards

The group has a Shared Performance Share 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 £867,851 and £732,656 related to SPSA transactions during 2016 and 2015 respectively.

Employee share purchase plan

The company recognised a further £28,133 (2015: £28,463) relating to the employee share purchase plan during the year.

Legacy Share-based Payment Schemes

The company recognised £Nil expense (2015: £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.

17. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings	
	2016	2015
	£'000	£'000
Operating leases which expire:		
Within 1 year	2,403	2,403
Between 2 and 5 years inclusive	9,613	9,613
After 5 years	27,726	30,136
	<u>39,742</u>	<u>42,152</u>

18. ULTIMATE PARENT UNDERTAKING

The immediate parent company and controlling party is Microsoft Ireland Research Limited, which is the smallest company preparing group accounts which include the results of the company. The ultimate parent undertaking of the company, which is also the controlling undertaking 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.

19. RELATED PARTY TRANSACTIONS

In accordance with FRS 101, transactions with other group undertakings within, and investee related parties of, the Microsoft Corporation group have not been disclosed in these financial statements.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

20. EXPLANATION OF TRANSITION TO FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in the preparation of an opening FRS 101 balance sheet at 1 July 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

20. EXPLANATION OF TRANSITION TO FRS 101 (continued)

Reconciliation of equity

	Note	1 July 2014			30 June 2015		
		UK	Effect of	FRS 101	UK	Effect of	FRS 101
		GAAP	transition		GAAP	transition	
		to FRS	to FRS		to FRS	to FRS	
		101	101		101	101	
		£'000	£'000	£'000	£'000	£'000	£'000
FIXED ASSETS							
Tangible assets	8	15,555	-	15,555	14,068	-	14,068
Investments	9	8	-	8	8	-	8
		<u>15,564</u>	<u>-</u>	<u>15,564</u>	<u>14,077</u>	<u>(1)</u>	<u>14,076</u>
CURRENT ASSETS							
Debtors	10	4,364	-	4,364	14,932	-	14,932
Deferred tax asset	12	-	-	-	-	-	-
Corporation tax		11,057	-	11,057	7,857	-	7,857
		<u>15,420</u>	<u>-</u>	<u>15,420</u>	<u>22,789</u>	<u>-</u>	<u>22,789</u>
CREDITORS							
Creditors: amounts falling due within one year	11	(7,045)	(328)	(7,373)	(7,814)	1,698	(6,116)
		<u>(7,045)</u>	<u>(328)</u>	<u>(7,373)</u>	<u>(7,814)</u>	<u>1,698</u>	<u>(6,116)</u>
NET CURRENT ASSETS		<u>8,375</u>	<u>(328)</u>	<u>8,047</u>	<u>14,974</u>	<u>1,699</u>	<u>16,673</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>23,938</u>	<u>(328)</u>	<u>23,610</u>	<u>29,051</u>	<u>1,698</u>	<u>30,749</u>
CREDITORS: amounts falling due in more than one year							
Deferred tax liability	12	(1,625)	766	(859)	(1,277)	649	(628)
Provisions for liabilities	13	(1,161)	-	(1,161)	(1,180)	(2,080)	(3,260)
NET ASSETS		<u>21,153</u>	<u>438</u>	<u>21,591</u>	<u>26,594</u>	<u>267</u>	<u>26,861</u>
CAPITAL AND RESERVES							
Called up share capital	15	30	-	30	30	-	30
Profit and loss account		21,123	438	21,561	26,564	267	26,831
SHAREHOLDERS' FUNDS		<u>21,153</u>	<u>438</u>	<u>21,591</u>	<u>26,594</u>	<u>267</u>	<u>26,861</u>

MICROSOFT RESEARCH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2016

20. EXPLANATION OF TRANSITION TO FRS 101 (continued)

Reconciliation of loss for year ended 30 June 2015

	Note	UK GAAP	2015 Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000
TURNOVER	2	39,517	-	39,517
GROSS PROFIT		39,517	-	39,517
Administrative expenses (net)		(40,687)	(54)	(40,741)
OPERATING LOSS	4	(1,170)	(54)	(1,224)
Interest receivable and similar income	5	6	-	6
Interest payable and similar charges	6	(2)	-	(2)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,166)	(54)	(1,220)
Tax on loss on ordinary activities	7	1,771	(705)	1,066
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		605	(759)	(154)

NOTES TO THE RECONCILIATION OF THE FINANCIAL STATEMENTS

In preparing its FRS 101 Financial Statements, the Company has adjusted amounts relating to employee benefits in accordance with IAS19. An accrual for employee vacation has been included at 30 June 2016 based on days earned but not taken. The tax has also been recalculated to take account of this adjustment.

The current and deferred tax on shares has also been recalculated to reflect the correct accounting practice under FRS101.