

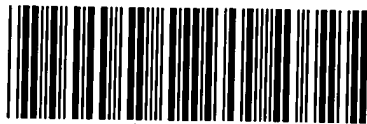
Registration number: 03369488

MICROSOFT RESEARCH LIMITED

Annual Report and Financial Statements

for the Year Ended 30 June 2017

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MICROSOFT RESEARCH LIMITED

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MICROSOFT RESEARCH LIMITED

Company Information

Directors	K R Dolliver B O Orndorff
Company secretary	RB Secretariat LTD
Registered office	21 Station Road Cambridge CBI 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 Hewitson Becke & Shaw Shakespeare House 42 Newmarket Road Cambridge CB5 8EP
Auditor	Deloitte LLP 1 Station Square Cambridge CB1 2GA
Tax advisers	KPMG LLP Arlington Business Park Theale Berkshire RG7 4SD

MICROSOFT RESEARCH LIMITED

Strategic Report for the Year Ended 30 June 2017

The directors present their strategic report for the year ended 30 June 2017.

Principal activity

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

Fair review of the business

The results for the year are shown on page 10. The company recorded a loss before taxation of £2,429,388 (2016: £1,521,780). 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 2017 of £36,564,384 (2016: £31,402,544).

Key performance indicators

The Directors do not monitor the performance of the company at a statutory level through the use of key performance indicators (KPI's). The Microsoft group manages its business and manages the delivery of its strategic objectives through the application of KPI's at the business group level.

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 2017, which are publicly available. Microsoft Research Limited's business model is expected to remain as it continues to provide researching services to Microsoft.

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.

Cash flow risk

The Company's activities expose it primarily to the financial risk of changes in foreign currency exchange rates, this is mitigated by short payment terms by its ultimate parent company, Microsoft Corporation and access to their cash pool where required.

Credit risk

The Company's principal financial assets are other debtors. The Company has low credit risk in relation to its debtors, as they are due from Microsoft Group companies; this is not considered a significant risk as the performance of other group companies continues to be strong.

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.

MICROSOFT RESEARCH LIMITED

Strategic Report for the Year Ended 30 June 2017

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

.....
B O Orndorff
Director



MICROSOFT RESEARCH LIMITED

Directors' Report for the Year Ended 30 June 2017

The directors present their annual report and the financial statements for the year ended 30 June 2017.

Dividends

The directors do not recommend the payment of a dividend.

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 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.

Risk 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.

Research and development

The Company continues to invest in research and development in Microsoft products.

Directors

The directors, who held office during the year and up to year end, were as follows:

K R Dolliver

B O Orndorff

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

Employment of disabled persons

The company values diversity and sees equal opportunity as making the best use of the talents of all employees and potential employees. As such it is the company's policy to give full and fair consideration to applications for employment by disabled persons, bearing in mind the abilities of the applicant concerned. The company will not tolerate discrimination in the workplace and aims to ensure that each employee feels valued, and has the opportunity to contribute fully to the success of the company.

The company's general policy on training and promotion is to fit the qualifications and potential of each member of its staff to the appropriate job and career in the business. This policy is applied to disabled persons in the same way as to other staff.

In the event of an employee becoming disabled, the company endeavours to continue their employment, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

MICROSOFT RESEARCH LIMITED

Directors' Report for the Year Ended 30 June 2017

Disclosure of information to the 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 auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be 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.

Reappointment of auditors'

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 on 18 January 2018 and signed on its behalf by:



.....
B O 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) 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 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.

MICROSOFT RESEARCH LIMITED

Independent auditor's report to the members of Microsoft Research Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30/06/2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Microsoft Research Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 2 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

MICROSOFT RESEARCH LIMITED

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.


Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

MICROSOFT RESEARCH LIMITED


Julian Rae (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
Date: _____

30 January 2018

MICROSOFT RESEARCH LIMITED

Profit and Loss Account for the Year Ended 30 June 2017

	Note	2017 £ 000	2016 £ 000
Turnover	2	<u>42,239</u>	<u>38,846</u>
Gross profit		42,239	38,846
Distribution costs		(277)	(316)
Administrative expenses		(44,416)	(40,072)
Other interest receivable and similar income	4	<u>25</u>	<u>20</u>
Loss before tax	5	(2,429)	(1,522)
Tax on loss	6	<u>(7)</u>	<u>208</u>
Loss for the year		<u><u>(2,436)</u></u>	<u><u>(1,314)</u></u>

The above results were derived from continuing operations.

There were no recognised gains or losses other than those shown in the Profit and Loss Account above.

MICROSOFT RESEARCH LIMITED

(Registration number: 03369488)

Balance Sheet as at 30 June 2017

	Note	2017 £ 000	2016 £ 000
Fixed assets			
Tangible assets	7	13,202	13,512
Investments	8	<u>11</u>	<u>8</u>
		<u>13,213</u>	<u>13,520</u>
Current assets			
Debtors	9	34,438	23,505
Corporation tax		<u>3,511</u>	<u>4,732</u>
		37,949	28,237
Creditors: amounts falling due within one year	10	<u>(10,563)</u>	<u>(6,847)</u>
Net current assets		<u>27,386</u>	<u>21,390</u>
Total assets less current liabilities		40,599	34,910
Creditors: Amounts falling due after more than one year			
Deferred tax liabilities	11	(1,160)	(574)
Provisions for liabilities	12	<u>(2,875)</u>	<u>(2,934)</u>
Net assets		<u>36,564</u>	<u>31,402</u>
Capital and reserves			
Called up share capital	13	30	30
Profit and loss account		<u>36,534</u>	<u>31,372</u>
Shareholders' funds		<u>36,564</u>	<u>31,402</u>

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

Approved by the Board on 18 January 2018 and signed on its behalf by:



 B O Omdorff
 Director

MICROSOFT RESEARCH LIMITED

Statement of Changes in Equity for the Year Ended 30 June 2017

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2015	30	26,831	26,861
Loss for the year	-	(1,314)	(1,314)
Total comprehensive income	-	(1,314)	(1,314)
Income tax effect of share based payments transactions	-	579	579
Share based payment - contribution received	-	5,276	5,276
At 30 June 2016	30	31,372	31,402

	Called up Share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 July 2016	30	31,372	31,402
Loss for the year	-	(2,436)	(2,436)
Total comprehensive expense for the year	-	(2,436)	(2,436)
Income tax effect of share based payments transactions	-	860	860
Share based payment - contribution received	-	6,738	6,738
At 30 June 2017	30	36,534	36,564

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

1 Accounting policies

Basis of preparation

Microsoft Research Limited (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered offices is shown on page 1.

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 meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

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.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

Summary of disclosure exemptions

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; 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:

Certain disclosures required by IFRS 2 Share Based Payments in respect of group settled share based payments

Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Measurement convention

The financial statements are prepared on the historical cost basis.

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 14 for details of how the fair value of awards is determined.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

Going concern

The company had a loss before tax in the year of £2,429k (2016: £1,522k) and was in a net asset position of £36,564k (2016: 31,402k).

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 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.

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:

Office equipment, furniture and fittings 33% per annum
Computer and technical equipment 33% to 100% per annum
Leasehold improvements over the period of the lease

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

Investments

Investments are stated at cost, less any provision for impairment. The company has one investment, as described in note 8. The company has applied the equity method of accounting under IAS 31, hence is not required to prepare consolidated accounts to include the results of the investment.

The Company performs an impairment analysis on an annual basis.

Turnover

Turnover includes commission income receivable and amounts derived from the ultimate parent company in the United States of America based on a mark-up on total costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

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.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

Pension scheme

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as 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 payables, intercompany payables and intercompany debtors approximates their 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.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

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

The average monthly number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Research and development	118	101
Other departments	29	29
	<u>147</u>	<u>130</u>

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £ 000	2016 £ 000
Wages and salaries	18,109	16,982
Social security costs	3,454	3,227
Pension costs, defined contribution scheme	1,684	1,641
Share-based payment expenses	6,738	5,276
	<u>29,985</u>	<u>27,126</u>

None of the directors received any remuneration in respect of qualifying services as directors of the Company in the current year or in the prior year and 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 (2016: none).

4 Other interest receivable and similar income

	2017 £ 000	2016 £ 000
Interest receivable from fellow group undertakings	25	20

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

5 Loss for the financial year

Loss for the financial year is stated after charging

	2017 £ 000	2016 £ 000
Operating lease expense - property	2,481	2,397
Depreciation expense	2,195	1,900
Foreign exchange gains	33	12
Auditors remuneration (for audit services)	31	22
Research and development cost	<u>1,340</u>	<u>751</u>

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

6 Tax on loss

Tax charged/(credited) in the profit and loss account

	2017 £ 000	2016 £ 000
Current taxation		
UK corporation tax	(187)	(184)
UK corporation tax adjustment to prior periods	(229)	67
Total current tax	(416)	(117)
Deferred taxation		
Deferred tax - current year	558	(63)
Deferred tax - prior year adjustment	(135)	(28)
Total deferred taxation	423	(91)
Tax expense/(receipt) in the profit and loss account	7	(208)

Reconciliation to current tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19.75% (2016 - 20%).

The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	2017 £ 000	2016 £ 000
Loss before tax	(2,429)	(1,522)
Corporation tax at standard rate	(480)	(446)
Depreciation on non-qualifying assets	27	25
Permanent adjustments	69	371
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	49	16
Share schemes	705	(213)
Prior year adjustment	(363)	39
Total tax charge/(credit)	7	(208)

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

7 Tangible assets

	Furniture, fittings and office equipment £ 000	Leasehold improvements £ 000	Computer & technical equipment £ 000	Total £ 000
Cost or valuation				
At 1 July 2016	2,978	14,256	3,061	20,295
Additions	779	206	902	1,887
Disposals	-	-	(1)	(1)
At 30 June 2017	<u>3,757</u>	<u>14,462</u>	<u>3,962</u>	<u>22,181</u>
Depreciation				
At 1 July 2016	2,564	2,554	1,667	6,785
Charge for the year	225	764	1,206	2,195
Eliminated on disposals	-	-	(1)	(1)
At 30 June 2017	<u>2,789</u>	<u>3,318</u>	<u>2,872</u>	<u>8,979</u>
Net book value				
At 30 June 2017	<u>968</u>	<u>11,144</u>	<u>1,090</u>	<u>13,202</u>
At 30 June 2016	<u>415</u>	<u>11,702</u>	<u>1,395</u>	<u>13,512</u>

8 Investments

Joint ventures

	£ 000
Cost or valuation	
At 1 July 2016	8
Additions	<u>3</u>
Net book value	
At 30 June 2017	<u>11</u>
At 30 June 2016	<u>8</u>

The company holds 50% of the share capital of The Microsoft Research - University of Trento Centre for Computational and Systems Biology, societa consortile a.r.l. This is a private limited liability consortium registered in Italy, with registered offices in Trento (Italy), 38100, via Belenzani, 12. The principal activity of the consortium is in research and development.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

9 Debtors

	2017 £ 000	2016 £ 000
Amounts owed by fellow group undertakings	22,426	15,949
Prepayments	3,316	706
Research and development credit	8,563	6,504
Other debtors	133	346
	<u>34,438</u>	<u>23,505</u>

Interest is received on amounts owed by group undertakings using a Reuter's 12-month interest rate. Intercompany debtors are repayable on demand. All amounts are due within one year and unsecured.

10 Creditors: amounts falling within one year

	2017 £ 000	2016 £ 000
Bank overdrafts	29	51
Trade creditors	4,272	1,025
Other creditors	94	68
Other taxation and social security	151	190
Accrued expenses	5,895	5,513
Amounts due to group undertakings	122	-
	<u>10,563</u>	<u>6,847</u>

Interest is received on amounts owed by group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. All amounts are due within one year and unsecured.

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 2017.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

11 Deferred tax

	2017 £ 000	2016 £ 000
Timing differences in respect of capital allowances	2,259	2,369
Share-based payments	<u>(1,099)</u>	<u>(1,795)</u>
	<u>1,160</u>	<u>574</u>
		2017 £ 000
Balance at 30 June 2016		574
Charged to the profit and loss account in the year		558
Charged to equity in the year		164
Prior year deferred tax adjustment		<u>(136)</u>
Balance at 30 June 2017		<u>1,160</u>

12 Provisions for Liabilities

	Dilapidations £ 000	Other provisions £ 000	Total £ 000
At 1 July 2016	(354)	(2,579)	(2,933)
Decrease (increase) through disposals	(129)	-	(129)
Charged to the profit and loss in the year	<u>(138)</u>	<u>325</u>	<u>187</u>
At 30 June 2017	<u>(621)</u>	<u>(2,254)</u>	<u>(2,875)</u>

The provision for dilapidations is being built up to provide for potential charges at the end of the lease period on rental properties. On average the leases expire between 5 and 10 years.

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 £Nil and the rate of NIC is 13.8%.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

13 Share capital

Authorised, allotted, called up and fully paid shares

	2017	2016
	£ 000	£ 000
30,000 Ordinary shares of £1 each	<u>30</u>	<u>30</u>

Authorised

	2017		2016
	No. 000	£ 000	No. 000
			£ 000
200,000 authorised shares of £1 each	<u>200</u>	<u>200</u>	<u>200</u>

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The shares have attached to them full voting, dividend and capital distribution rights, They do not confer any rights of redemption.

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

14 Share-based payments

The group has an equity settled share award scheme whereby employees are awarded shares in Microsoft Corporation. The shares vest equally on the first to fifth anniversary of the award date. The employees do not make any payments for these shares. Awards are forfeited if the employee leaves the group before the relevant anniversary date of those awards has been reached

The movements in the number of share options during the year were as follows:

	2017 Number	2016 Number
Outstanding, start of year	596,150	770,237
Granted during the year	209,859	269,390
Forfeited during the year	(48,259)	(120,503)
Exercised during the year	(235,783)	(306,433)
Transferred in, during the year	5,194	4,257
Transferred out, during the year	<u>(2,642)</u>	<u>(20,798)</u>
Outstanding at the end of the year	<u>524,519</u>	<u>596,150</u>

The estimated average share price at the date share awards vested during the year ended 30 June 2017 was \$59.87 (2016: \$45.49).

The unvested awards as at 30 June 2017 had a weighted average remaining contractual life of Nil years (2016: Nil years).

In both 2017 and 2016 awards were granted on numerous dates. The aggregate of the estimated fair values of the awards granted on those dates was £9,651,060 (2016: £8,168,232).

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.

Share awards

The company recognised total expenses of £5,738,355 and £4,379,990 in relation to share award transactions during 2017 and 2016 respectively.

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 £959,812 and £867,851 related to SPSA transactions during 2017 and 2016 respectively.

Employee share purchase plan

The company recognised a further £39,379 (2016: £28,133) relating to the employee share purchase plan during the year.

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

MICROSOFT RESEARCH LIMITED

Notes to the Financial Statements for the Year Ended 30 June 2017

15 Operating Lease Commitments

Operating leases

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:

	2017 £ 000	2016 £ 000
Operating leases which expire:		
Within one year	2,403	2,403
In two to five years	9,613	9,613
In over five years	25,323	27,726
	<u>37,339</u>	<u>39,742</u>

Operating lease payments represent rentals payable for the offices leased by the Company. The remaining lease term is 15 years.

16 Parent and ultimate controlling party

The immediate parent company is Microsoft Ireland Research Limited, registered address 70 Sir John Rogerson's Quay, Dublin 2, Ireland. 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, at the registered address Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

17 Related party transactions

As at 30 June 2017 and 30 June 106, the company was a wholly owned subsidiary of Microsoft Corporation. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been non transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 9 and 10.