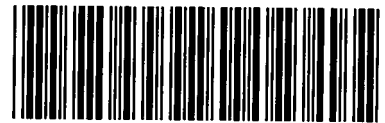


**MICROSOFT RESEARCH LIMITED**

**Report and Financial Statements**

**Year ended 30<sup>th</sup> June 2013**

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# **MICROSOFT RESEARCH LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2013**

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**MICROSOFT RESEARCH LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2013**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

K R Dolliver  
B Orndorff

**SECRETARY**

Reed Smith Corporate Services Limited

**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  
Reading

**TAX ADVISERS**

KPMG LLP  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

# **MICROSOFT RESEARCH LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2013.

### **PRINCIPAL ACTIVITIES**

Microsoft Research Limited is engaged in computer science research.

### **REVIEW OF RESULTS AND FUTURE PROSPECTS**

The results for the period are shown on page 6. The company recorded a loss before taxation of £468,552 (FY2012: £2,741,371 Loss). The Directors feel that, despite this loss, the Company is in a sound position for the coming period. No dividends were paid in the period (FY2012: £ nil).

The company maintained a strong balance sheet and had net assets at 30 June 2013 of £15,027,052 (FY2012: £9,286,910).

### **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. Interest bearing assets are held at fixed rates to ensure certainty of cash flows.

#### **Credit risk**

The company's principal financial assets are 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.

### **GOING CONCERN**

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.

### **DIRECTORS**

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

## **DIRECTORS' REPORT**

### **EMPLOYEE CONSULTATION**

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 and the company. This is achieved through formal and informal meetings, the company magazine and a special edition for employees of the annual financial statements.

### **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 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 May 15 2014.

B Oyndorff  
Director



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 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 2013 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. 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

### Matters on which we are required to report by exception

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

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



Andrew Bond ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Reading, United Kingdom

Date: 15 MAY 2014

# MICROSOFT RESEARCH LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 30 June 2013

	Note	Year ended 30 June 2013 £	Year ended 30 June 2012 £
<b>TURNOVER</b>	2	36,900,388	33,622,940
Administrative expenses		<u>(37,382,355)</u>	<u>(36,414,427)</u>
<b>OPERATING LOSS</b>	4	(481,967)	(2,791,487)
Interest payable and similar charges	5	-	(24)
Interest receivable and similar income	6	<u>13,415</u>	<u>50,140</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(468,552)	(2,741,371)
Tax credit on profit on ordinary activities	7	<u>1,038,926</u>	<u>1,983,098</u>
<b>PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</b>	17	<u>570,374</u>	<u>(758,273)</u>

All amounts derive from continuing operations.

The notes on pages 8 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 2013

	Note	Year ended 30 June 2013 £	Year ended 30 June 2012 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	9	16,078,092	4,898,826
Investments	10	8,479	8,479
		<u>16,086,571</u>	<u>4,907,305</u>
<b>CURRENT ASSETS</b>			
Debtors	11	10,407,000	13,724,471
Cash at bank and in hand		-	-
		<u>10,407,000</u>	<u>13,724,471</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(8,940,684)</u>	<u>(7,391,189)</u>
<b>NET CURRENT ASSETS</b>		<u>1,466,316</u>	<u>6,333,282</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>17,552,887</u>	<u>11,240,587</u>
<b>PROVISION FOR LIABILITIES</b>	14	<u>(850,000)</u>	<u>(1,953,677)</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	<u>(1,675,835)</u>	<u>-</u>
<b>NET ASSETS</b>		<u>15,027,052</u>	<u>9,286,910</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	30,000	30,000
Profit and loss account	17	14,997,052	9,256,910
<b>SHAREHOLDER'S FUNDS</b>	17	<u>15,027,052</u>	<u>9,286,910</u>

The financial statements of Microsoft Research Limited, Registered Number 03369488, were approved by the Board of Directors and authorised for issue on 15 May 2014

Signed on behalf of the Board of Directors

B Orndorff

Director

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. These have been consistently applied in both the current and preceding financial periods.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Going concern**

The 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.

**Financial year**

The financial year is the fifty two week period ending on the 30 June.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. 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.

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**1. ACCOUNTING POLICIES (continued)**

**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.

**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.

**Consolidated financial statements**

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**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 qualifying costs plus ten percent. Turnover is recognised on an accruals basis.

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	<b>Year ended 30 June 2013 £</b>	<b>Year ended 30 June 2012 £</b>
<b>The average number of employees (including directors) during the year was as follows:</b>		
Research	162	149
Other	16	17
	<u>178</u>	<u>166</u>
<b>Staff costs:</b>		
Wages and salaries	15,798,935	14,943,632
Social security costs	2,873,885	2,502,467
Other pension costs	1,382,406	1,199,801
Share-based payments charge	5,169,769	5,120,666
	<u>25,224,995</u>	<u>23,766,566</u>
<b>Director's emoluments:</b>		
	<b>£</b>	<b>£</b>
Remuneration	-	290,218
Pension contribution	-	36,598
	<u>-</u>	<u>326,816</u>
<b>Highest paid director:</b>		
	<b>£</b>	<b>£</b>
Fees and other emoluments	-	326,816
	<u>-</u>	<u>326,816</u>

Contributions were made to a defined contribution pension scheme on behalf of no director (2012: one). The other directors (2012: 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 (2012: £nil).

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**4. OPERATING LOSS**

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
<b>Operating loss is stated after charging:</b>		
Rentals under other operating leases:		
- plant and machinery	6,340	7,745
- other	2,437,508	1,510,957
Depreciation of tangible fixed assets	1,129,860	290,896
Research and development expenditure	977,550	807,823
Foreign exchange gain	(31,670)	(194,314)
Auditor's remuneration – audit services	20,000	19,000
	<u>          </u>	<u>          </u>

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
Bank interest and charges	-	24
	<u>          </u>	<u>          </u>

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
Interest received from group undertakings	13,415	50,140
	<u>          </u>	<u>          </u>

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

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

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
UK corporation tax	4,153,674	1,856,413
Adjustment in respect of prior years – current tax	(33,861)	283,964
<b>Total current tax credit for the period</b>	<b>4,119,813</b>	<b>2,140,377</b>
Deferred tax charge – current year	(2,394,394)	(157,279)
Deferred tax charge – prior year	(686,493)	-
<b>Total deferred charge for the period</b>	<b>(3,080,887)</b>	<b>(157,279)</b>
<b>Total tax credit for the period</b>	<b>1,038,926</b>	<b>1,983,098</b>

The average standard rate of current tax for the period, based on the UK standard rate of corporation tax is 23.75% (2012: 25.5%). The current tax charge for the period differs from 23.75% (2012: 25.5%) for the reasons set out in the following reconciliation:

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
Loss on ordinary activities before tax	(468,552)	(2,741,371)
Tax credit on ordinary activities at 23.75% (2012: 25.5%)	(111,281)	(699,050)
Permanent adjustments	(506,963)	91,374
Differences between depreciation and capital allowances	(2,543,816)	(145,765)
R&D tax credit	(890,625)	(1,275,000)
Other timing differences	(100,989)	172,028
Adjustments in respect of prior years	33,861	(283,964)
<b>Current tax credit for the year</b>	<b>(4,119,813)</b>	<b>(2,140,377)</b>

**8. DIVIDENDS**

	Year ended 30 June 2013 £	Year ended 30 June 2012 £
No dividends were proposed or paid in the relevant years.	-	-

**NOTES TO THE ACCOUNTS**  
**Year ended 30 June 2013**

**9. TANGIBLE FIXED ASSETS**

	<b>Leasehold improve- ments £</b>	<b>Computer equipment £</b>	<b>Fixtures, fittings and telecoms equipment £</b>	<b>Total £</b>
<b>Cost</b>				
30 June 2012	5,378,390	3,799,047	2,078,439	11,255,876
Additions	9,692,634	741,858	1,887,187	12,321,679
Disposals	(1,445,444)	(239,303)	(1,713,826)	(3,398,573)
30 June 2013	<u>13,625,580</u>	<u>4,301,602</u>	<u>2,251,800</u>	<u>20,178,982</u>
<b>Accumulated depreciation</b>				
30 June 2012	1,351,270	3,063,734	1,942,046	6,357,050
Charge for the period	424,859	304,273	400,728	1,129,860
Disposals	(1,440,431)	(239,303)	(1,706,286)	(3,386,020)
At 30 June 2013	<u>335,698</u>	<u>3,128,704</u>	<u>636,488</u>	<u>4,100,890</u>
<b>Net book value</b>				
At 30 June 2013	<u>13,289,882</u>	<u>1,172,898</u>	<u>1,615,312</u>	<u>16,078,092</u>
At 30 June 2012	<u>4,027,120</u>	<u>735,313</u>	<u>136,393</u>	<u>4,898,826</u>

**10. INVESTMENTS**

	<b>2013 £</b>	<b>2012 £</b>
Cost and net book value	<u>8,479</u>	<u>8,479</u>

The company holds 50% of the share capital of The Microsoft Research – University of Trento Centre for Computational and Systems Biology, società consortile a.r.l. This is a private limited liability consortium, registered in Italy. The principal activity of the consortium is in research and development.

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**11. DEBTORS**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Amounts owed by group undertakings	-	6,789,856
Corporation tax	8,784,521	4,649,565
Deferred tax asset (note 13)	-	1,405,052
Prepayments and accrued income	1,622,479	879,998
	<u>10,407,000</u>	<u>13,724,471</u>

All debtors are due within one year.

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

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Trade creditors	1,825,579	531,458
Amounts owed to group undertakings	2,762,753	-
Other creditors including taxation and social security	315,527	776,385
Accruals and deferred income	4,027,263	6,078,746
Bank loans and overdraft	9,562	4,600
	<u>8,940,684</u>	<u>7,391,189</u>

Included in other creditors are amounts totalling £102,325 (2012: £577,367) in respect of tax and social security and £125,404 (2012: £138,883) in respect of unpaid pension contributions. All creditors are due within one year.

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 2013.



**NOTES TO THE ACCOUNTS**  
**Year ended 30 June 2013**

**13 DEFERRED TAX LIABILITY**

	2013 £	2012 £
The deferred tax provision comprises of:		
Capital allowances taken in excess of depreciation	(3,511,442)	(379,247)
Share-based payments	1,806,764	1,685,483
Short term timing differences	28,843	98,816
	<u>(1,675,835)</u>	<u>1,405,052</u>
The movement in deferred tax asset during the period was as follows:		
Balance at 30 June 2012	1,405,052	1,562,331
Charge to profit and loss account in the period	(2,394,394)	(157,279)
Charge to profit and loss account in the prior period	(686,493)	-
	<u>(1,675,835)</u>	<u>1,405,052</u>

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability at 30 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date).

**14. PROVISIONS FOR LIABILITIES**

	Dilapidations £
Balance at 30 June 2012	1,953,677
Credited to the profit and loss in the period	<u>(1,103,677)</u>
Balance at 30 June 2013	<u>850,000</u>

The provision for dilapidations is being built up to provide for potential charges at the end of the lease period on rental properties. The lease expired in the year to 30 June 2013.

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

	2013 £	2012 £
Deferred tax liability (note 13)	<u>(1,675,835)</u>	-
	<u>(1,675,835)</u>	<u>-</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 June 2013**

**16. CALLED UP SHARE CAPITAL**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Authorised 200,000 ordinary shares of £1 each	200,000	200,000
Called up, allotted and fully paid 30,000 £1 ordinary shares	30,000	30,000

**17. COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS**

	<b>Called up share capital £</b>	<b>Profit and loss account £</b>	<b>Shareholder's funds 2013 £</b>	<b>Shareholder's funds 2012 £</b>
<b>Profit/(Loss) for the financial period</b>	-	570,374	570,374	(758,273)
Dividend paid	-	-	-	-
Share-based payment – contribution received	-	5,169,768	5,169,768	5,120,666
Net addition / (reduction) to shareholder's funds	-	5,740,142	5,740,142	4,362,393
<b>Opening shareholder's funds</b>	30,000	9,256,910	9,286,910	4,924,517
<b>Closing shareholder's funds</b>	30,000	14,997,052	15,027,052	9,286,910

**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.

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**18. SHARE BASED PAYMENTS (CONTINUED)**

Details of the share awards outstanding during the year are as follows:

	<b>2013</b>	<b>2012</b>
Number of share awards		
Weighted average exercise price (in £)	15.57	15.25
Outstanding at beginning of period	866,369	854,834
Granted during the period	277,053	392,605
Forfeited during the period	(10,285)	(117,838)
Exercised during the period	(269,388)	(263,232)
Expired during the period	-	-
Outstanding at the end of the period	863,749	866,369
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards exercised during the period ended 30 June 2013 was \$24.39 (period ended 30 June 2012: \$26.62).

In both the periods ended 30 June 2013 and 30 June 2012, awards were granted on numerous dates. The aggregate of the estimated fair values of the options granted on those dates was £5,135,452 (2012: £5,109,182).

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 £3,961,133 and £4,085,205 related to stock award transactions during 2013 and 2012 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 £1,179,438 and £681,938 related to SPSA transactions during 2013 and 2012 respectively. Refer to Note 17 for the equity impact of the awards.

**Legacy Share-based Payment Schemes**

The company recognised no expense (2012: £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.

**NOTES TO THE ACCOUNTS**

**Year ended 30 June 2013**

**19. OPERATING LEASE COMMITMENTS**

At 30 June 2013, the company had annual commitments under non-cancellable operating leases as follows:

	<b>Land and buildings 2013 £</b>	<b>Other 2013 £</b>	<b>Total 2013 £</b>	<b>Land and buildings 2012 £</b>	<b>Other 2012 £</b>	<b>Total 2012 £</b>
Leases which expire						
Within 1 years	14,502	-	14,502	1,169,704	16,624	1,186,328
After 5 years	2,403,256	-	2,403,256	-	-	-
	<u>2,417,758</u>	<u>-</u>	<u>2,417,758</u>	<u>1,169,704</u>	<u>16,624</u>	<u>1,186,328</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.