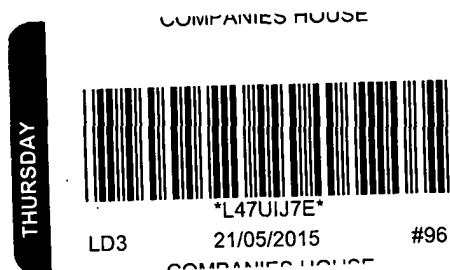


MICROSOFT RESEARCH LIMITED

Report and Financial Statements

Year ended 30 June 2014



MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2014

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MICROSOFT RESEARCH LIMITED

REPORT AND FINANCIAL STATEMENTS 2014

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Blake resigned 25 June 2012
K R Dolliver
B Orndorff

SECRETARY

RB Secretariat Ltd

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

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

SOLICITORS

Reed Smith	Hewitson Becke & Shaw
The Broadgate Tower	Shakespeare House
20 Primrose Street	42 Newmarket Road
London	Cambridge
EC2A 2RS	CB5 8EP

AUDITOR

Deloitte LLP
Reading

TAX ADVISERS

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD

MICROSOFT RESEARCH LIMITED

STRATEGIC REPORT

The directors present their Strategic Report for Microsoft Research Limited ("the Company") for the year ended 30 June 2014.

ACTIVITIES

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

BUSINESS REVIEW

The results for the period are shown on page 7. The company recorded a loss before taxation of £1,351,308 (2013: £468,552 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 2014 of £21,152,770 (2013 £15,027,052).

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 2014, 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.

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 bank balances, trade and other debtors.

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

Liquidity risk

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

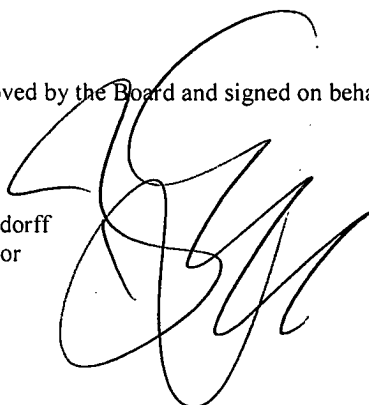
Market risk

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

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

Approved by the Board and signed on behalf of the board on 12 May 2015.

B Orndorff
Director



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2014.

DIVIDENDS

No dividends were paid in the period (2013: nil).

GOING CONCERN

The company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Microsoft Corporation (the ultimate parent company) has agreed to provide financial support as and when required to enable the Company to meet its external obligation. On this basis, the directors consider it appropriate to adopt the going concern basis in preparing the annual report and accounts. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

FUTURE PROSPECTS

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

DIRECTORS

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

EMPLOYEE INVOLVEMENT

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company 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.

EMPLOYMENT OF DISABLED PERSONS

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

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

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

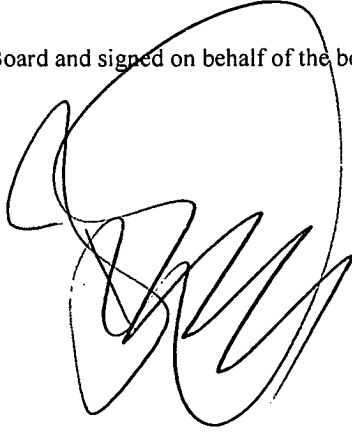
Deloitte LLP have expressed their willingness to continue in office as auditor.

MICROSOFT RESEARCH LIMITED

DIRECTORS' REPORT

Approved by the Board and signed on behalf of the board on 12 May 2015.

B Orndorff
Director

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and strokes, positioned to the right of the name B Orndorff.

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 2014 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

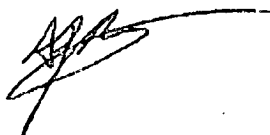
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

12 May 2015

MICROSOFT RESEARCH LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2014

	Note	Year ended 30 June 2014 £	Year ended 30 June 2013 £
TURNOVER	2	38,637,679	36,900,388
Administrative expenses		<u>(39,981,233)</u>	<u>(37,382,355)</u>
OPERATING LOSS	4	(1,343,554)	(481,967)
Interest payable and similar charges	5	(9,776)	-
Interest receivable and similar income	6	<u>2,022</u>	<u>13,415</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,351,308)	(468,552)
Tax credit on profit on ordinary activities	7	<u>2,417,543</u>	<u>1,038,926</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	<u>1,066,235</u>	<u>570,374</u>

All amounts derive from continuing operations.

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

There were no recognised gains and losses in the current or prior year other than as shown in the profit and loss account above. Accordingly, no statement of total recognised gains and losses has been presented.

MICROSOFT RESEARCH LIMITED

BALANCE SHEET

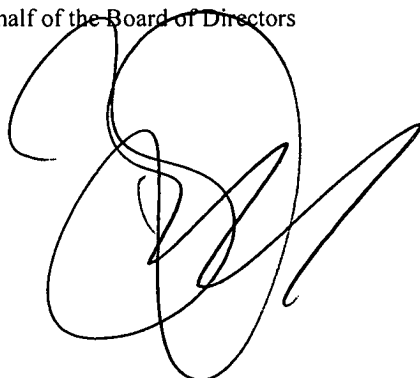
As at 30 June 2014

	Note	Year ended 30 June 2014 £	Year ended 30 June 2013 £
FIXED ASSETS			
Tangible fixed assets	9	15,555,065	16,078,092
Investments	10	8,479	8,479
		<u>15,563,544</u>	<u>16,086,571</u>
CURRENT ASSETS			
Debtors	11	15,420,174	10,407,000
CREDITORS: amounts falling due within one year	12	(7,045,361)	(8,940,684)
NET CURRENT ASSETS		<u>8,374,813</u>	<u>1,466,316</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,938,357	17,552,887
PROVISION FOR LIABILITIES	14	(1,161,075)	(850,000)
CREDITORS: amounts falling due after more than one year	15	(1,624,512)	(1,675,835)
NET ASSETS		<u>21,152,770</u>	<u>15,027,052</u>
CAPITAL AND RESERVES			
Called up share capital	16	30,000	30,000
Profit and loss account	17	<u>21,122,770</u>	<u>14,997,052</u>
SHAREHOLDER'S FUNDS	17	<u>21,152,770</u>	<u>15,027,052</u>

The financial statements of Microsoft Research Limited, Registered Number 03369488, were approved by the Board of Directors and authorised for issue on 12 May 2015.

Signed on behalf of the Board of Directors

B Orndorff
Director



NOTES TO THE ACCOUNTS

Year ended 30 June 2014

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The company and the Microsoft group have considerable financial resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. 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 30th of 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.

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.

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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

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

Research and development expenditure

Expenditure on research and development is written off in the period in which it is incurred.

Grants

Grants awarded to support research projects are recorded at the date the company grants the award. Grant amounts committed but not yet paid are included in accruals. The amount of the grant which is accrued is restricted to those sums which have been committed to at the balance sheet date.

Pensions

The company makes contributions into the Microsoft Group personal pension scheme dependent upon the contributions of the employees themselves. The contributions are charged to the profit and loss account as they become due and payable. Differences between contributions payable on the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currencies

Transactions in foreign currencies during the period are recorded at the average rate ruling for the month of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate of exchange at the balance sheet date.

All exchange gains and losses are taken to the profit and loss account.

2. TURNOVER

Turnover represents amounts derived from the parent undertaking in the United States of America and is wholly derived from the company's principal activity. The turnover is stated at cost plus ten percent. Turnover is recognised on an accruals basis.

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
The average number of employees (including directors) during the year was as follows:		
Research	155	162
Other	27	16
	<u>182</u>	<u>178</u>
Staff costs:		
Wages and salaries	17,016,339	15,798,935
Social security costs	3,252,864	2,873,885
Other pension costs	1,679,278	1,382,406
Share-based payments charge	5,059,483	5,169,769
	<u>27,007,964</u>	<u>25,244,995</u>
Director's emoluments:		
		£
Remuneration	-	-
Pension contribution	-	-
	<u>-</u>	<u>-</u>
Highest paid director:		
		£
Fees and other emoluments	-	-
	<u>-</u>	<u>-</u>

Contributions were made to a defined contribution pension scheme on behalf of no directors (2013: none). The other directors (2013: 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 (2013: £nil).

MICROSOFT RESEARCH LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

4. OPERATING LOSS

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
Operating loss is stated after charging:		
Rentals under other operating leases:		
- plant and machinery	(321)	6,340
- other	2,470,011	2,437,508
Depreciation of tangible fixed assets	1,808,223	1,129,860
Research and development expenditure	680,589	977,550
Foreign exchange (gain) / loss	72,138	(31,670)
Auditor's remuneration – audit services	31,454	20,000
	<u> </u>	<u> </u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
Interest payable for group undertakings	9,776	-
	<u> </u>	<u> </u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
Interest received from group undertakings	2,022	13,415
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

7. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
UK corporation tax	701,328	4,153,674
Adjustment in respect of prior years – current tax	1,664,892	(33,861)
Total current tax credit for the period	2,366,220	4,119,813
Deferred tax charge – current year	61,475	(2,394,394)
Deferred tax charge – prior year	(10,152)	(686,493)
Total deferred charge for the period	51,323	(3,080,887)
Total tax credit for the period	2,417,543	1,038,926

The average standard rate of current tax for the period, based on the UK standard rate of corporation tax is 22.5% (2013: 23.75%). The current tax charge for the period differs from 22.5% (2013: 23.75%) for the reasons set out in the following reconciliation:

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
Loss on ordinary activities before tax	(1,351,308)	(468,552)
Tax credit on ordinary activities at 22.5% (2013: 23.75%)	(304,044)	(111,281)
Permanent adjustments	(481,556)	(506,963)
Differences between depreciation and capital allowances	112,488	(2,543,816)
R&D tax credit	-	(890,625)
Other timing differences	(28,216)	(100,989)
Adjustments in respect of prior years	(1,664,892)	33,861
Current tax credit for the year	(2,366,220)	(4,119,813)

8. DIVIDENDS

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
No dividends were proposed or paid in the relevant years	-	-

NOTES TO THE ACCOUNTS
Year ended 30 June 2014

9. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost				
30 June 2013	13,625,580	4,301,602	2,251,800	20,178,982
Additions	297,395	666,961	293,708	1,258,064
Disposals	-	(33,237)	(16,465)	(49,702)
Transfers	-	-	52,281	52,281
30 June 2014	13,922,975	4,935,326	2,581,324	21,439,625
Accumulated depreciation				
30 June 2013	335,698	3,128,704	636,488	4,100,890
Charge for the period	732,015	368,284	707,924	1,808,223
Disposals	-	(33,237)	-	(33,237)
Transfers	-	-	8,684	8,684
At 30 June 2014	1,067,713	3,463,751	1,353,096	5,884,560
Net book value				
At 30 June 2014	12,855,262	1,471,575	1,228,228	15,555,065
At 30 June 2013	13,289,882	1,172,898	1,615,312	16,078,092

10. INVESTMENTS

	2014 £	2013 £
Cost and net book value	8,479	8,479

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

11. DEBTORS

	2014 £	2013 £
Corporation tax	11,056,633	8,784,521
Research and Development Credit	2,565,782	-
Prepayments and accrued income	1,621,882	1,622,479
Amounts from group undertakings	175,877	-
	15,420,174	10,407,000

All debtors are due within one year.

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014	2013
	£	£
Trade creditors	1,439,453	1,825,579
Amounts owed to group undertakings	-	2,762,753
Other creditors including taxation and social security	275,168	315,527
Accruals and deferred income	5,309,561	4,027,263
Bank loans and overdraft	21,179	9,562
	<u>7,045,361</u>	<u>8,940,684</u>

Included in other creditors are amounts totalling £183,704 (2013: £102,325) in respect of tax and social security and £nil (2013: £125,404) 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 2014.

13 DEFERRED TAX LIABILITY

	2014	2013
	£	£
The deferred tax provision comprises of:		
Capital allowances taken in excess of depreciation	(2,962,266)	(3,511,442)
Share-based payments	1,337,754	1,806,764
Short term timing differences	-	28,843
	<u>(1,624,512)</u>	<u>(1,675,835)</u>
The movement in deferred tax asset during the period was as follows:		
Balance at 30 June 2013	(1,675,835)	1,405,052
Charge to profit and loss account in the period	61,475	(2,394,394)
Charge to profit and loss account in the prior period	(10,152)	(686,493)
Balance at 30 June 2014	<u>(1,624,512)</u>	<u>(1,675,835)</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. The deferred tax asset at 30 June 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

14. PROVISIONS FOR LIABILITIES

	Dilapidations £
Balance at 30 June 2013	850,000
Charged to the profit and loss in the period	<u>311,075</u>
Balance at 30 June 2014	<u><u>1,161,075</u></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 a prior year and negotiations are still underway for remuneration.

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

	2014 £	2013 £
Deferred tax liability (note 13)	<u>(1,624,512)</u>	<u>(1,675,835)</u>
	<u><u>(1,624,512)</u></u>	<u><u>(1,675,835)</u></u>

16. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Authorised 200,000 ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Called up, allotted and fully paid 30,000 £1 ordinary shares	<u>30,000</u>	<u>30,000</u>

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

	Called up share capital £	Profit and loss account £	Shareholder's funds 2014 £	Shareholder's funds 2013 £
(Loss)/Profit for the financial period	-	1,066,235	1,066,235	570,374
Share-based payment – contribution received	-	5,059,483	5,059,483	5,169,768
Net addition / (reduction) to shareholder's funds	-	6,125,718	6,125,718	5,740,142
Opening shareholder's funds	<u>30,000</u>	<u>14,997,052</u>	<u>15,027,052</u>	<u>9,286,910</u>
Closing shareholder's funds	<u><u>30,000</u></u>	<u><u>21,122,770</u></u>	<u><u>21,152,770</u></u>	<u><u>15,027,052</u></u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2014

18. SHARE BASED PAYMENTS

Stock Awards

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

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

	2014	2013
Number of share awards		
Weighted average exercise price (in £)	15.16	15.57
Outstanding at beginning of period	1,023,031	866,369
Granted during the period	326,435	277,053
Forfeited during the period	(31,653)	(10,285)
Exercised during the period	(365,613)	(269,388)
Expired during the period	-	-
Cancelled	-	-
Transferred In	43,451	-
Transferred Out	(46,449)	-
Adjustments	7	-
Outstanding at the end of the period	949,299	863,749
Exercisable at the end of the period	-	-

The estimated average share price at the date share awards exercised during the period ended 30 June 2014 was \$24.56 (period ended 30 June 2013: \$26.62).

In both the periods ended 30 June 2014 and 30 June 2013, awards were granted on numerous dates. The aggregate of the estimated fair values of the options granted on those dates was £5,059,485 (2013: £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 £4,089,309 and £3,851,690 related to stock award transactions during 2014 and 2013 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 £940,291 and £581,809 related to SPSA transactions during 2014 and 2013 respectively. Refer to Note 17 for the equity impact of the awards.

Legacy Share-based Payment Schemes

The company recognised no expense (2013: £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 2014

19. OPERATING LEASE COMMITMENTS

At 30 June 2014, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2014 £	Other 2014 £	Total 2014 £	Land and buildings 2013 £	Other 2013 £	Total 2013 £
Leases which expire						
Within 1 years	-	-	-	14,502	-	14,502
After 5 years	2,403,256	-	2,403,256	2,403,256	-	2,403,256
	<u>2,403,256</u>	<u>-</u>	<u>2,403,256</u>	<u>2,417,758</u>	<u>-</u>	<u>2,417,758</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.