

MICROSOFT RESEARCH LIMITED

Report and Financial Statements

52 weeks ended 28 June 2002



Presented for filing by -

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SOLICITORS**

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REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent Auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Professor R Needham	(deceased 1 March 2003)
A Herbert	(appointed 3 March 2003)
K J Fay	
J A Seethoff	

SECRETARY

R B Secretariat Limited
Beaufort House
Tenth Floor
15 St Botolph Street
London
EC3A 7EE

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

National Westminster Bank Plc
12 High Street
Windsor
Berkshire
SL4 1LQ

Citibank NA
336 The Strand
London
WC2R 1HB

SOLICITORS

Richards Butler
Beaufort House
Tenth Floor
15 St Botolph Street
London
EC3A 7EE

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

AUDITORS

Deloitte & Touche
Chartered Accountants
Reading

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 28 June 2002.

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 5. The directors feel that this leaves them in a sound position for the coming year. The directors propose a dividend of £2,780,402 (2001: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are shown on page 1. None of the directors had any interest in the shares of the company or any other group company within the UK at any point during the period.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors. The company passed elective resolutions on 13 May 1997 dispensing with the requirement to hold annual general meetings.

Approved by the Board of Directors
and signed on behalf of the Board on 9th May 2003.



A Herbert
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROSOFT RESEARCH LIMITED

We have audited the financial statements of Microsoft Research Limited for the 52 weeks ended 28 June 2002 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 found.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

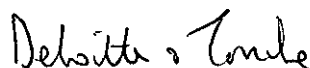
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in 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 28 June 2002 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors
Reading

9 May 2003

PROFIT AND LOSS ACCOUNT
52 weeks ended 28 June 2002

	Note	2002 £	2001 £
TURNOVER: continuing operations	2	13,992,493	12,489,530
Administrative expenses		<u>(12,965,092)</u>	<u>(11,091,663)</u>
OPERATING PROFIT: continuing operations	4	1,027,401	1,397,867
Other income		381,622	-
Interest receivable and similar income		87,634	44,757
Interest payable and similar charges	5	<u>(163,085)</u>	<u>(263,856)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,333,572	1,178,768
Tax on profit on ordinary activities	6	<u>(487,433)</u>	<u>(370,000)</u>
PROFIT FOR THE FINANCIAL PERIOD	12	846,139	808,768
Dividends proposed		<u>(2,780,402)</u>	<u>-</u>
RETAINED (LOSS)/PROFIT TRANSFERRED TO RESERVES		<u><u>(1,934,263)</u></u>	<u><u>808,768</u></u>

There are no recognised gains or losses for the current or preceding period other than as stated above and therefore no statement of total recognised gains and losses is required.

BALANCE SHEET
As at 28 June 2002

	Note	28 June 2002 £	29 June 2001 £
FIXED ASSETS			
Tangible assets	7	823,271	8,432,420
CURRENT ASSETS			
Debtors	8	4,659,037	3,148,521
Cash at bank and in hand		849,020	225,893
		5,508,057	3,374,414
CREDITORS: amounts falling due within one year	9	(5,252,923)	(9,588,593)
NET CURRENT ASSETS/(LIABILITIES)		255,134	(6,214,179)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,078,405	2,218,241
PROVISIONS FOR LIABILITIES AND CHARGES	10	(1,048,405)	(253,978)
		30,000	1,964,263
CAPITAL AND RESERVES			
Called up share capital	11	30,000	30,000
Profit and loss account	12	-	1,934,263
EQUITY SHAREHOLDERS' FUNDS		30,000	1,964,263

These financial statements were approved by the Board of Directors on 9th May 2003.

Signed on behalf of the Board of Directors



A Herbert

Director

NOTES TO THE ACCOUNTS
52 weeks ended 28 June 2002**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	20%
Computer equipment	20 - 100%
Fixtures, fittings and telecoms equipment	20 - 33%

No depreciation is charged on assets in the course of construction.

Financial year

The financial year is the fifty two or fifty three week period ending on the Friday closest to 30 June.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Deferred taxation

The group has adopted FRS 19 Deferred tax. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Research and development expenditure

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

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.

Foreign currencies

Transactions in foreign currencies during the year 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.

NOTES TO THE ACCOUNTS
52 weeks ended 28 June 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 No.	2001 No.
The average number of employees during the year was as follows:		
Research	63	63
Other	8	8
	<u>71</u>	<u>71</u>
Staff costs:	£	£
Wages and salaries	4,834,188	4,090,547
Social security costs	701,958	500,264
Other pension costs	182,899	147,802
	<u>5,719,045</u>	<u>4,738,613</u>
Directors emoluments:		
Remuneration	208,688	184,167
Pension contribution	5,278	6,708
	<u>213,966</u>	<u>190,875</u>

Contributions were made to a defined contribution pension scheme on behalf of one director in both the current and prior years.

4. OPERATING PROFIT

	2002 £	2001 £
Operating profit is after charging:		
Auditors' remuneration – other services	-	4,000
Rentals under operating leases	781,234	306,278
Depreciation of tangible fixed assets	<u>562,808</u>	<u>733,076</u>

Audit fees were borne by another group company in both the current and prior years.

NOTES TO THE ACCOUNTS

52 weeks ended 28 June 2002

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank interest and charges	1,402	2,307
Group interest payable	161,683	261,549
	<u>163,085</u>	<u>263,856</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
UK corporation tax at 30%	284,897	705,800
Deferred tax	150,258	(335,800)
Adjustment in respect of priors years;		
Corporation tax	(10,468)	-
Deferred tax	62,746	-
	<u>487,433</u>	<u>370,000</u>

Deferred tax is as per note 10.

The standard rate of current tax for the period, based on the UK standard rate of corporation tax is 30% (2001 – 30%). The current tax charge for the period is less than 30% for the reasons set out in the following reconciliation:

	2002 £	2001 £
Profit on ordinary activities before tax	1,333,572	1,178,768
Tax charge on ordinary activities at 30%	400,071	353,630
Permanent adjustments	35,084	16,370
Deferred tax	(150,258)	335,800
Adjustments in respect of prior years	(10,468)	-
Current tax charge for the year	<u>274,429</u>	<u>705,800</u>

NOTES TO THE ACCOUNTS
52 weeks ended 28 June 2002

7. TANGIBLE FIXED ASSETS

	Assets in the course of construction £	Leasehold improve- ments £	Computer equipment £	Fixtures, fittings and telecoms equipment £	Total £
Cost					
At 1 July 2001	8,110,008	2,031,835	1,046,480	517,345	11,705,668
Additions	4,611,508	10,064	452,240	601,363	5,675,175
Disposals	(12,721,516)	-	(62,487)	-	(12,784,003)
At 28 June 2002	-	2,041,899	1,436,233	1,118,708	4,596,840
Accumulated depreciation					
At 1 July 2001	-	1,929,908	955,585	387,755	3,273,248
Charge for the period	-	111,991	259,604	191,213	562,808
Disposals	-	-	(62,487)	-	(62,487)
At 28 June 2002	-	2,041,899	1,152,702	578,968	3,773,569
Net book value					
At 28 June 2002	-	-	283,531	539,740	823,271
At 30 June 2001	8,110,008	101,927	90,895	129,590	8,432,420

8. DEBTORS

	2002 £	2001 £
Amounts owed by group undertakings	4,187,116	2,825,680
Prepayments and other debtors	471,921	322,841
	<u>4,659,037</u>	<u>3,148,521</u>

All debtors are due within one year

NOTES TO THE ACCOUNTS

52 weeks ended 28 June 2002

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Overdraft	-	44,258
Trade creditors	105,061	93,511
Amounts owed to group undertakings	-	7,584,380
Corporation tax	333,618	541,687
Other creditors including taxation and social security	891,836	636,682
Accruals	1,142,006	688,075
Dividends proposed	2,780,402	-
	<u>5,252,923</u>	<u>9,588,593</u>

10. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation – capital allowances in excess of depreciation	
At 1 July 2001	33,978
Charge for the period	213,004
At 28 June 2002	<u>246,982</u>
Other Provisions – vacant space	
At 1 July 2001	220,000
Charge for the period	581,423
At 28 June 2002	<u>801,423</u>

The vacant space provision represents rental commitments for vacant property space and will be released over the remaining life of the lease in 2003 or earlier termination or sale of lease.

NOTES TO THE ACCOUNTS

52 weeks ended 28 June 2002

11. CALLED UP SHARE CAPITAL

	2002 £	2001 £
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

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up capital share £	Profit and loss account £	Total 2002 £	Total 2001 £
At the beginning of the period	30,000	1,934,263	1,964,263	1,155,495
Retained (loss)/profit for the period	-	(1,934,263)	(1,934,263)	808,768
At the end of the period	30,000	-	30,000	1,964,263

13. OPERATING LEASE COMMITMENTS

At 28 June 2002, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2002 £	Other 2002 £	Total 2002 £	Land and buildings 2001 £	Other 2001 £	Total 2001 £
Leases which expire						
Within one year	354,916	-	354,916	-	12,043	12,043
Within 2 to 5 years	1,142,040	47,030	1,189,070	1,138,404	-	1,138,404
	1,496,956	47,030	1,543,986	1,138,404	12,043	1,150,447

14. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking of the company, which is also the controlling party 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.

This is the only company in which the results of Microsoft Research Limited are consolidated.

15. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No.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.