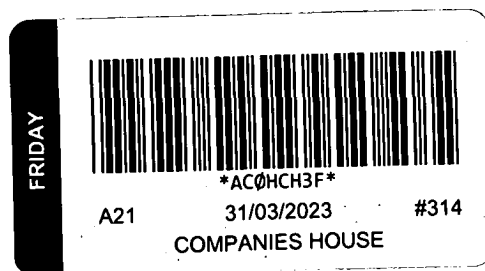


Registration number: 03369488

# Microsoft Research Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2022



## **Microsoft Research Limited**

### **Contents**

<b>Company Information</b>	<b>1</b>
<b>Strategic Report</b>	<b>2 to 4</b>
<b>Directors' Report</b>	<b>5 to 7</b>
<b>Statement of Directors' Responsibilities</b>	<b>8</b>
<b>Independent Auditor's Report</b>	<b>9 to 12</b>
<b>Profit and Loss Account</b>	<b>13</b>
<b>Balance Sheet</b>	<b>14</b>
<b>Statement of Changes in Equity</b>	<b>15</b>
<b>Notes to the Financial Statements</b>	<b>16 to 33</b>

## **Microsoft Research Limited**

### **Company Information**

<b>Directors</b>	Keith R Dolliver Benjamin O Orndorff
<b>Company secretary</b>	Reed Smith Corporate Services Limited
<b>Registered office</b>	21 Station Road Cambridge CBI 2FB
<b>Solicitors</b>	Reed Smith LLP The Broadgate Tower 20 Primrose Street London EC2A 2RS
<b>Bankers</b>	Citibank, N.A. CGC , Canada Square Canary Wharf London E14 5LB
<b>Auditors</b>	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

## **Microsoft Research Limited**

### **Strategic Report for the Year Ended 30 June 2022**

The directors present their strategic report for the year ended 30 June 2022.

#### **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 13. The Company recorded a loss before taxation of £7,553,000 (2021 - loss before taxation of £8,429,000), the loss has decreased due to higher administrative expenses relating to R&D and staff costs which has resulted in an increase in commission receivable. 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 2022 of £33,121,000 (2021 - £37,120,000), both tangible assets and long term creditors have increased due to the inception of a new building lease.

#### **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 a business group level.

#### **Strategy, objective 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 2022, which is publicly available at [www.microsoft.com](http://www.microsoft.com). Microsoft Research Limited's business model is expected to remain consistent as it continues to provide researching services to Microsoft.

#### **Principal risks and uncertainties**

The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft group companies; their performance continues to be strong and there is not considered to be a significant risk to the Company's continuing profitability. The Company has no significant borrowings or foreign exchange exposure.

#### ***Currency risk, credit risk, liquidity risk and market risk***

##### **Currency risk**

Financial risk of changes in foreign currency exchange rates are mitigated by short payment terms by its ultimate parent company, Microsoft Corporation and access to their cash pool where required. The Company does not use derivative financial instruments for speculative purposes or to hedge risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation.

##### **Credit risk**

The Company's principal financial assets are bank balances and other debtors. The Company's credit risk is primarily attributable to its intercompany debtors. This is not considered a significant risk as the other group companies continue to perform well.

##### **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.

## **Microsoft Research Limited**

### **Strategic Report for the Year Ended 30 June 2022 (continued)**

#### **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.

Microsoft continues to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

#### **COVID-19**

The occurrence of regional epidemics or a global pandemic such as COVID-19 may adversely affect our operations, financial condition, and results of operations. The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The extent to which global pandemics impact our business going forward will depend on factors such as the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue as a going concern.

#### **Other risks**

Other risks applicable to the Microsoft Corporation include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2022 Form 10-K.

#### **Section 172 (1) Statement**

Section 172 of the Companies Act 2006 requires a director of a company to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. The Directors acknowledge their responsibility, and the following disclosure sets out how the Directors have regard to the matters set out in section 172 (1) (a)-(f).

The Company is a subsidiary of the Microsoft group and therefore consideration of stakeholder engagement is intrinsically linked to the wider Microsoft strategy in order to achieve a greater aligned impact. Microsoft seek to ensure that stakeholder voices are considered and gain input and outside perspectives into the Company to inform business decisions through a variety of feedback channels. Microsoft is committed to conducting business in a way that is principled, transparent, and accountable and the foundations of this commitment is expressed in Microsoft's Standards of Business Conduct which apply to all employees. These standards require legal compliance and also broader commitments to address accessibility, diversity and inclusion, human rights and privacy. In support of these Standards Microsoft strive to build a workplace that embraces trust where every employee feels free to ask questions and raise concerns when something doesn't seem right. Microsoft offers employees, customers, suppliers, and other external parties' multiple ways to report compliance concerns.

## Microsoft Research Limited

### Strategic Report for the Year Ended 30 June 2022 (continued)

#### Customers

Customer feedback and insights are critical in shaping how the business enhances existing products and services and develop new ones. Insights from customers are gained through online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers and our customer service representatives.

#### Employees

Attracting and retaining talented and diverse employees is critical to the Company's long-term success. To support this the Company seeks to create a respectful, rewarding, diverse and inclusive work environment. This is focussed around the concept of a growth mindset which starts with a belief that everyone can grow and develop. Employee feedback is sought in multiple ways including a bi-annual online anonymous poll around the Microsoft work experience including workgroups, organisation, and the Company as a whole. The senior leadership team and individual managers use this feedback to further improve areas of strength and address opportunities for improvement.

#### Suppliers

The Company extends the expectation of high standards of business conduct to the suppliers who do business with Microsoft through requiring them to uphold human rights, labour, health and safety, environment, and business ethics practices in our Supplier Code of Conduct. Supplier engagement is sought through workshops and trainings, supplier advisory boards, a supplier summit and participation in industry coalitions. An anonymous voice of the supplier survey is also conducted.

#### Environment

The Directors have considered the importance of climate change and working towards Microsoft's strategy for a sustainable future which focuses on climate, ecosystems, water, and waste. On climate, this includes a commitment to becoming carbon negative by 2030, shifting to 100% renewable energy by 2025 and investing in new technologies and innovative sustainability solutions.

Approved by the Board on <sup>29 March</sup> 2023 and signed on its behalf by:

Benjamin O Omdorff  
Director

## **Microsoft Research Limited**

### **Directors' Report for the Year Ended 30 June 2022**

The directors present their report and the audited financial statements for the year ended 30 June 2022.

#### **Dividends**

The directors do not approve a dividend for the year (2021 - £8,900,000).

#### **Going concern**

The financial statements are prepared on a going concern basis.

The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

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 and the directors continue to adopt the going concern basis in preparing the annual report and accounts.

No other events occurred after the balance sheet date that would impact significantly on the financial statements.

#### **Directors of the Company**

The directors, who held office during the financial year and up to the date of signing, were as follows :

Keith R Dolliver

Benjamin O Orndorff

#### **Risk and uncertainties**

The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft Group companies. The company's activities expose it to a number of financial risks which are detailed in the Strategic Report.

#### **Future developments**

The company will continue to support other group companies and will continue with the principle activities as outlined in the strategic report.

#### **Research and development**

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

#### **Engagement with Stakeholders**

The Company and Microsoft Corporation maintains an active dialogue with shareholders to ensure a diversity of perspectives are thoughtfully considered. Microsoft shareholders are invited to contact the board about corporate governance or the Board of Directors.

Information on engagement with stakeholders, including customers, employees and suppliers is set out in the strategic report.

## Microsoft Research Limited

### Directors' Report for the Year Ended 30 June 2022 (continued)

#### Environmental report

##### Emissions and energy consumption

Microsoft's greenhouse gas (GHG) inventory calculations are compiled according to the GHG Protocol Corporate Accounting and Reporting Standard and the GHG Protocol Scope 2 Guidance: An amendment to GHG Protocol Corporate Standard. As such, Microsoft calculates Scope 2 emissions using both a location- and market-based methodology but tracks its GHG reduction goals according to the market-based method to capture the impact of Microsoft's 100% renewable electricity commitment. In following GHGP requirements for calculating market-based Scope 2 emissions, Microsoft preferences renewable electricity in the hierarchy for selecting market-based emission factors because Microsoft procures 100% renewable electricity for global (and specifically UK) electricity consumption. Renewable electricity carries a zero emission factor, therefore Microsoft's market-based Scope 2 emissions for electricity consumption are zero.

Microsoft calculates emissions primarily using metered activity data, but estimates based on appropriate proxies (such as office floor area and data center IT capacity) where metered activity data is not available. For the UK GHG inventory, Microsoft uses emission factors from the US EPA's Emission Factor Hub to calculate Scope 1 emissions, and the electricity emission factor annually provided by the UK's Defra to calculate Scope 2 emissions. The global warming potential (GWP) used to characterize impacts from CH<sub>4</sub>, N<sub>2</sub>O, and fugitive refrigerants are based on the IPCC's Fourth Assessment Report (AR4).

Summary of greenhouse gas emissions and energy consumption for the year ended 30 June 2022:

Name and description	Unit of measurement	2022	2021
Scope 1 (direct) GHG emissions	Metric Tons CO <sub>2</sub> e	449	365
Scope 2 (indirect location-based) GHG emissions	Metric Tons CO <sub>2</sub> e	901	609
Scope 2 (indirect market-based) GHG emissions	Metric Tons CO <sub>2</sub> e	-	-
Energy consumption	MWh	7,058	4,579
Emissions Intensity Ratio	Metric Tons CO <sub>2</sub> e/ GBP revenue in millions	<u>7</u>	<u>7</u>

#### 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 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 provision of the s418 of the Companies Act 2006.



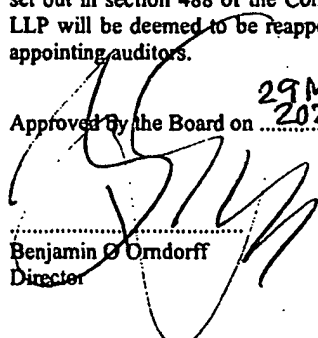
**Microsoft Research Limited**

**Directors' Report for the Year Ended 30 June 2022 (continued)**

**Auditors**

Deloitte LLP have expressed their willingness to continue in office as auditor. Unless the members take action (as set out in section 488 of the Companies Act 2006) to prevent the deemed reappointment of the auditors, Deloitte LLP will be deemed to be reappointed for the financial year ending on 30 June 2023 at the end of the period for appointing auditors.

Approved by the Board on <sup>29 March</sup> 2023 and signed on its behalf by:

  
Benjamin O Orndorff  
Director

## **Microsoft Research Limited**

### **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), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 proper accounting records that 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 jurisdiction.

## **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 of Microsoft Research Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 June 2022 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 which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

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 Financial Reporting Council's (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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Microsoft Research Limited**

### **Independent Auditor's Report to the Members of Microsoft Research Limited (continued)**

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

#### **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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Microsoft Research Limited**

### **Independent Auditor's Report to the Members of Microsoft Research Limited (continued)**

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

#### **Report on other legal and regulatory requirements**

##### **Opinion 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.

## **Microsoft Research Limited**

### **Independent Auditor's Report to the Members of Microsoft Research Limited (continued)**

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**

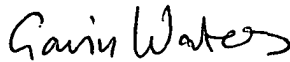
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

#### **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.



.....  
Gavin Waters, (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Reading, UK

Date: 29/3/2023

**Microsoft Research Limited**

**Profit and Loss Account for the Year Ended 30 June 2022**

	Note	2022 £ 000	2021 £ 000
Turnover	4	62,909	57,410
Distribution costs		(87)	(90)
Administrative expenses		<u>(69,828)</u>	<u>(65,356)</u>
Operating loss		<u>(7,006)</u>	<u>(8,036)</u>
Interest receivable and similar income	6	2	4
Interest payable and similar expenses	7	<u>(549)</u>	<u>(397)</u>
		<u>(547)</u>	<u>(393)</u>
Loss before tax		(7,553)	(8,429)
Tax on loss	11	<u>(9,332)</u>	<u>1,266</u>
Loss for the year		<u><u>(16,885)</u></u>	<u><u>(7,163)</u></u>

The above results were derived from continuing operations.

There are no income or expenses other than those shown in the Profit and Loss Account above and therefore no statement of comprehensive income is presented.

The notes on pages 16 to 33 form an integral part of these financial statements.

**Microsoft Research Limited**

**(Registration number: 03369488)  
Balance Sheet as at 30 June 2022**

	Note	30 June 2022 £ 000	30 June 2021 £ 000
<b>Fixed Assets</b>			
Tangible assets	13	55,750	40,222
Investments	14	<u>9</u>	<u>9</u>
		<u>55,759</u>	<u>40,231</u>
<b>Current assets</b>			
Deferred tax assets	11	-	1,746
Debtors	15	52,822	53,146
Cash at bank and in hand		<u>51</u>	<u>43</u>
		<u>52,873</u>	<u>54,935</u>
<b>Creditors: Amounts falling due within one year</b>	16	<u>(33,338)</u>	<u>(26,208)</u>
<b>Net current assets</b>		<u>19,535</u>	<u>28,727</u>
<b>Total assets less current liabilities</b>		<u>75,294</u>	<u>68,958</u>
<b>Creditors: Amounts falling due after more than one year</b>	17	<u>(37,775)</u>	<u>(26,881)</u>
Provisions for liabilities	19	(4,146)	(4,957)
Deferred tax liabilities	11	<u>(252)</u>	<u>-</u>
<b>Net assets</b>		<u>33,121</u>	<u>37,120</u>
<b>Capital and reserves</b>			
Called up share capital	20	30	30
Profit and loss account		<u>33,091</u>	<u>37,090</u>
<b>Shareholders' funds</b>		<u>33,121</u>	<u>37,120</u>

Approved by the Board on 29 March 2023 and signed on its behalf by:

Benjamin O. Orndorff  
Director



**Microsoft Research Limited**

**Statement of Changes in Equity for the Year Ended 30 June 2022**

	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
At 1 July 2021	30	37,090	37,120
Loss for the year	-	(16,885)	(16,885)
Total comprehensive expense	-	(16,885)	(16,885)
Dividends (note 12)	-	-	-
Share based payment - contribution received (note 23)	-	11,336	11,336
Income tax effect of share based payments transactions	-	1,550	1,550
At 30 June 2022	30	33,091	33,121

	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
At 1 July 2020	30	38,425	38,455
Loss for the year	-	(7,163)	(7,163)
Total comprehensive expense	-	(7,163)	(7,163)
Dividends (note 12)	-	(8,900)	(8,900)
Share based payment - contribution received (note 23)	-	12,196	12,196
Income tax effect of share based payments transactions	-	2,532	2,532
At 30 June 2021	30	37,090	37,120

The notes on pages 16 to 33 form an integral part of these financial statements.



## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022**

#### **1 General information**

Microsoft Research Limited ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The nature of the Company's operations and its principal activities are set out in the Report on pages 2 - 4. The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. These financial statements present information about the Company as an individual undertaking and not about its group. The group accounts of Microsoft Corporation can be obtained as set out in note 25.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of preparation**

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

##### **Summary of disclosure exemptions**

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- 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;
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions within the group;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- IFRS 2 Share Based Payments in respect of group settled share base payments; and
- 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.

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 25.

## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 July 2021 have had a material effect on the financial statements.

##### **Measurement convention**

The financial Statements are prepared on the historical cost basis, with the exception of the share based payments which are recorded initially at fair value and lease liabilities which are initially measured at the present value of the lease payments to be made over the lease term.

##### **Going concern**

The financial statements are prepared on a going concern basis.

The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

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 financial statements.

##### **Turnover**

Turnover includes commission income receivable under agreements with the parent company in Ireland based on a mark-up on eligible costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

##### **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.

##### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Tax**

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

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 the 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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

##### **Tangible assets**

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value. The Company performs an impairment analysis on an annual basis.

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 3 years  
Computer and technical equipment 1 - 4 years  
Buildings 15 years  
Leasehold improvements over the period of the lease  
Land is not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation rate or method as appropriate on a prospective basis.

##### **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.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

##### **Leases**

We determine if an arrangement is a lease at inception. Leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognised at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease ROU asset also includes any lease payments made, estimate of costs to dismantle or restore the underlying asset to the original condition, and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the lease ROU assets and liabilities.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

##### **Dividends**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

##### **Defined contribution pension obligation**

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.

## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Share based payments**

The Company has adopted IFRS 2 in respect of share awards granted by the parent company, Microsoft Corporation, to the employees of the Company. The estimated fair value of equity-based instruments are recognised as an expense over the vesting period with a corresponding credit to retained earnings, recognised as a capital contribution in the Company's Statement of Changes in Equity. 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 and adjusted for the effect of non-market based vesting conditions. The fair value of share awards is determined on the date of grant, based on the parent company's stock price and less the dividends that will not be received during the vesting period.

##### **Financial instruments**

###### ***Initial recognition***

###### **Financial assets**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

###### **Financial liabilities**

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 2 Accounting policies (continued)

##### *Classification and measurement*

##### Financial assets

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

##### Financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

##### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at amortised cost.

##### *Financial assets at amortised cost*

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables, and balances with other group companies.

##### *Financial assets at fair value through other comprehensive income (FVTOCI)*

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 2 Accounting policies (continued)

##### *Derecognition*

###### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

###### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

##### *Impairment of financial assets*

###### Measurement of Expected Credit Losses

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages under IFRS 9's general approach. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the Company applies the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.



## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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 or no key sources of estimation uncertainty.

#### 4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2022	2021
	£ 000	£ 000
Commission from group undertakings	<u>62,909</u>	<u>57,410</u>

Turnover represents amounts derived from the parent undertaking in Ireland and is wholly derived from the company's principal activity. The turnover is based on a mark-up on eligible costs incurred. Turnover is recognised on an accruals basis.

#### 5 Loss for the year

Arrived at after charging/(crediting)

	2022	2021
	£ 000	£ 000
Depreciation expense	4,853	4,579
Research and development costs (excluding depreciation and staff costs - note 8)	11,547	8,727
Foreign exchange (gains)	(37)	(142)
Loss on disposal of property, plant and equipment	-	73
Auditor's remuneration for audit services (note 10)	<u>40</u>	<u>38</u>

#### 6 Interest receivable and similar income

	2022	2021
	£ 000	£ 000
Interest receivable from group undertakings	<u>2</u>	<u>4</u>

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 7 Interest payable and similar expenses

	2022	2021
	£ 000	£ 000
Interest on obligations under leases	<u>549</u>	<u>397</u>

#### 8 Staff costs

The aggregate payroll costs were as follows:

	2022	2021
	£ 000	£ 000
Wages and salaries	30,016	28,785
Social security costs	7,900	7,189
Pension costs, defined contribution scheme	3,003	2,981
Share-based payment expenses	<u>11,336</u>	<u>12,196</u>
	<u>52,255</u>	<u>51,151</u>

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

	2022	2021
	No.	No.
Research and development	187	190
Other departments	<u>19</u>	<u>18</u>
	<u>206</u>	<u>208</u>

#### 9 Directors' remuneration

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 (2021 - £nil).

#### 10 Auditor's remuneration

	2022	2021
	£ 000	£ 000
Audit of the financial statements	<u>40</u>	<u>38</u>

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 11 Taxation

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

	2022 £ 000	2021 £ 000
<b>Current taxation</b>		
UK corporation tax	143	(897)
UK corporation tax adjustment to prior periods	<u>8,165</u>	<u>(6)</u>
	<u>8,308</u>	<u>(903)</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	1,059	(597)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	138	(45)
Deferred tax expense (credit) relating to changes in tax rates or laws	<u>(173)</u>	<u>279</u>
Total deferred taxation	<u>1,024</u>	<u>(363)</u>
Tax expense/(receipt) in the profit and loss account	<u><u>9,332</u></u>	<u><u>(1,266)</u></u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2021 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2022 £ 000	2021 £ 000
Loss before tax	<u>(7,553)</u>	<u>(8,429)</u>
Corporation tax at standard rate	(1,435)	(1,601)
Increase in current tax from adjustment for prior periods	8,165	(6)
Increase from effect of capital allowances depreciation	63	32
Increase from effect of revenues exempt from taxation	128	(61)
Increase from effect of expenses not deductible in determining taxable profit	9	12
Decrease from effect of exercise employee shared based payment	(292)	124
Deferred tax credit from unrecognised temporary difference from a prior period	138	(45)
Deferred tax charge relating to changes in tax rates or laws	230	279
Adjustment in relation to share based payment	<u>2,326</u>	<u>-</u>
Total tax charge/(credit)	<u><u>9,332</u></u>	<u><u>(1,266)</u></u>

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 11 Taxation (continued)

##### Deferred tax

##### Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 July 2021 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 30 June 2022 £ 000
Timing differences in respect of capital allowances	(1,825)	(1,015)	-	(2,840)
Share-based payment	3,571	(9)	(974)	2,588
Net tax assets/(liabilities)	<u>1,746</u>	<u>(1,024)</u>	<u>(974)</u>	<u>(252)</u>

The deferred tax liability includes amounts recoverable after more than one year.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charges accordingly. The deferred tax at 30 June 2022 has been calculated based on this rate.

#### 12 Dividends

	30 June 2022 £ 000	30 June 2021 £ 000
Paid dividend of Nil (2021 - £296.67) per each ordinary shares	<u>-</u>	<u>8,900</u>

**Microsoft Research Limited**

**Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

**13 Tangible assets**

	Leasehold Land and buildings £ 000	Furniture, fittings and office equipment £ 000	Leasehold Improvements £ 000	Computer and technical equipment £ 000	Total £ 000
<b>Cost or valuation</b>					
At 1 July 2020	34,528	4,012	17,103	6,017	61,660
Additions	-	16	1,276	254	1,546
Disposals	-	-	(119)	(41)	(160)
Transfers	-	293	(304)	11	-
At 30 June 2021	34,528	4,321	17,956	6,241	63,046
At 1 July 2021	34,528	4,321	17,956	6,241	63,046
Additions	10,759	77	9,024	521	20,381
Disposals	-	(683)	-	(3)	(686)
Transfers	-	-	-	-	-
At 30 June 2022	45,287	3,715	26,980	6,759	82,741
<b>Depreciation</b>					
At 1 July 2020	2,553	3,771	6,736	5,272	18,332
Charge for year	2,563	99	1,292	625	4,579
Eliminated on disposal	-	-	(46)	(41)	(87)
Transfers	-	271	(271)	-	-
At 30 June 2021	5,116	4,141	7,711	5,856	22,824
At 1 July 2021	5,116	4,141	7,711	5,856	22,824
Charge for the year	3,295	37	1,144	377	4,853
Eliminated on disposal	-	(683)	-	(3)	(686)
Transfers	-	-	-	-	-
At 30 June 2022	8,411	3,495	8,855	6,230	26,991
<b>Carrying amount</b>					
At 30 June 2022	36,876	220	18,125	529	55,750
At 30 June 2021	29,412	180	10,245	385	40,222
At 1 July 2020	31,975	241	10,367	745	43,328

## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 14 Investments

##### Joint ventures

£ 000

##### Carrying amount

At 30 June 2021 and 30 June 2022

9

Details of the joint ventures as at 30 June 2022 are as follows:

Name of Joint-ventures	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
The Microsoft Research University of Trento Centre for Computational and Systems Biology, società consortile a.r.l.	Research and development	Trento (Italy), 38100, via Belenzani, 12, Italy	50%	50%

There is only one class of share issued by the joint venture and all shares have equal voting rights.

#### 15 Debtors

	30 June 2022 £ 000	30 June 2021 £ 000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	41,001	43,584
Prepayments	1,303	967
Research and development credit	4,130	3,669
Other debtors	4,005	1,534
Corporation tax asset	2,383	3,392
	<u>52,822</u>	<u>53,146</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.

# **Microsoft Research Limited**

## **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

### **16 Creditors: amounts falling due within one year**

	30 June 2022 £ 000	30 June 2021 £ 000
Lease obligations	3,766	2,635
Trade creditors	3,494	2,596
Other creditors	425	307
Accrued expenses	13,137	7,735
Amounts due to group undertakings	8,238	8,900
Social security and other taxes	4,278	4,035
	<u>33,338</u>	<u>26,208</u>

Interest is paid on amounts owed to group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. These amounts are unsecured.

### **17 Creditors: Amounts falling due after more than one year**

	30 June 2022 £ 000	30 June 2021 £ 000
Lease obligations	<u>37,775</u>	<u>26,881</u>

### **18 Lease arrangements**

The Company has a lease for a corporate office, with a remaining lease term of 12 years.

	Leasehold Land and buildings 2022 £ 000	Leasehold Land and Buildings 2021 £ 000
Opening Balance	29,412	31,975
Additions	10,759	-
Depreciation expense for the year	<u>(3,295)</u>	<u>(2,563)</u>
	<u>36,876</u>	<u>29,412</u>

# Microsoft Research Limited

## Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

### 18 Lease arrangements (continued)

Amounts recognised in profit and loss were as follows:

	30 June 2022 £ 000	30 June 2021 £ 000
Depreciation expense on right-of-use assets	3,295	2,563
Interest expense on lease liabilities	549	397
	<u>3,844</u>	<u>2,960</u>

### Obligations under lease commitments

		30 June 2022 £ 000	30 June 2021 £ 000
Effective interest rate	Maturity		
1.34% a.a.	2033	<u>41,541</u>	<u>29,516</u>
		30 June 2022 £ 000	30 June 2021 £ 000
Current		3,766	2,635
Non-current		<u>37,775</u>	<u>26,881</u>
		<u>41,541</u>	<u>29,516</u>

Changes in liabilities arising from financing activities	On July 1, 2021 £ 000	Cash flows £ 000	Exchange variation £ 000	New leases £ 000	Others £ 000	On 30 June, 2022 £ 000
Leasing activities	<u>29,516</u>	<u>1,266</u>	<u>-</u>	<u>10,759</u>	<u>-</u>	<u>41,541</u>

The cash flows include £4.8m of rent abatements received in the year.

Maturities of lease liabilities were as follows:

	30 June 2022 £ 000	30 June 2021 £ 000
Undiscounted lease payments to be paid		
Not later than 1 year	3,944	2,760
Later than 1 year and not later than 5 years	16,479	11,039
Later than 5 years	<u>24,242</u>	<u>18,000</u>
	<u>44,665</u>	<u>31,799</u>

As of June 30, 2022, the Company have no additional leases that have not yet commenced.



## Microsoft Research Limited

### Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

#### 19 Provisions for liabilities

	Dilapidations £ 000	Other provisions £ 000	Total £ 000
At 1 July 2021	1,166	3,791	4,957
Charged to the profit and loss account in the year	-	3,441	3,441
Increase (decrease) in existing provisions	<u>103</u>	<u>(4,355)</u>	<u>(4,252)</u>
At 30 June 2022	<u>1,269</u>	<u>2,877</u>	<u>4,146</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 will expire in January 2033.

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 and the rate of NIC is 13.8%.

#### 20 Share capital

##### Allotted, called up and fully paid shares

	30 June 2022		30 June 2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>

##### Authorised shares

The authorised share capital of the Company was 200,000 shares of £1 each (2021 - 200,000 shares of £1 each)

##### 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 2022 (continued)**

#### **21 Pension and other schemes**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £3,003,000 (2021 - £2,981,000). Included in accruals at financial year end is £ 266,000 payable to the fund (2021 - £252,000).

#### **22 Subsequent Events**

No subsequent events have occurred since the financial period end that materially impact the financial statements for the financial year ended 30 June 2022.

#### **23 Share-based payments**

Stock awards ("SAs") are grants that entitle the holder to shares of Microsoft common stock as the award vests. SAs generally vest over a period of four or five years.

Microsoft also have an employee stock purchase plan ("the Plan") for all eligible employees. Shares of Microsoft common stock may be purchased by employees at a discounted price compared to the market value.

IFRS 2 requires that equity-settled share based payments issued to the company's employees are measured at fair value and that this value is expensed over the vesting period. The expense recognised in the period arising from transactions accounted for on equity-settled share based payment transactions is £11,336,070 (2021 - £12,196,015). Stock awards granted during the financial year were shares 81,393 (2021 - 96,890). Awards outstanding at the end of the financial year were 186,281 (2021 - 244,839).

The estimated average share price at the date share awards vested during the year ended 30 June 2022 was \$300.38 (2021 - \$230.45).

The unvested awards at 30 June 2022 had a weighted average remaining contractual life of 3.22 years (2021 - 3.03 years).

#### **24 Related party transactions**

As at 30 June 2022 and 30 June 2021, 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 no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 15 and 16.

## **Microsoft Research Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)**

#### **25 Parent and ultimate parent undertaking**

The immediate parent company is Microsoft Ireland Research, 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 and smallest 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 at [www.microsoft.com](http://www.microsoft.com) or on written request from the Investor Relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.