

**MICROSOFT LIMITED**

**Report and Financial Statements**

**53 weeks ended 2 July 2004**



Presented for filing by -

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SOLICITORS**

Ref: Smg/0150425

**REPORT AND FINANCIAL STATEMENTS 2004**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Statement of directors' responsibilities</b>	<b>4</b>
<b>Independent auditors' report</b>	<b>5</b>
<b>Profit and loss account</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Notes to the accounts</b>	<b>8</b>

**REPORT AND FINANCIAL STATEMENTS 2004**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

N Holloway (resigned 26 March 2004)  
K J Fay (resigned 31 December 2004)  
J A Seethoff  
A J Baker (appointed 29 March 2004)  
K R Dolliver (appointed 31 December 2004)

**SECRETARY**

R B Secretarial Limited

**REGISTERED OFFICE**

Microsoft Campus  
Thames Valley Park  
Reading  
Berkshire  
RG6 1WG

**BANKERS**

National Westminster Bank Plc	Citibank, N.A.
12 The High Street	PO Box 449
Windsor	Riverdale House
Berkshire	Molesworth Street
SL4 1LQ	London
	SE13 7EU

**SOLICITORS**

Linklaters & Paines	The Law Offices of Marcus J O'Leary
One Silk Street	Centennial Court
London	Easthampstead Road
EC2Y 8HQ	Bracknell
	Berkshire RG12 1YQ
Richards Butler	Osborne Clark
Beaufort House	Apex Plaza
15 St Botolph Street	Forbury Road
London	Reading
EC3A 7EE	Berkshire
	RG1 1AX

**AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Reading

**TAX ADVISERS**

KPMG LLP  
Arlington Business Park  
Theale

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 53 weeks ended 2 July 2004.

### **ACTIVITIES**

Microsoft Limited, a subsidiary of Microsoft Corporation, continues to market and support systems and applications software for business, professional and home use, including operating systems, network products, languages and applications as well as books, hardware and CD-ROM products for the microcomputer market place.

The principal area of business activity is the United Kingdom.

### **REVIEW OF DEVELOPMENTS**

The profit and loss account is shown on page 6.

### **DIVIDENDS**

The directors approved payment of a dividend for the period of £25 million (2003 – £40 million).

### **FUTURE PROSPECTS**

The directors are looking forward to another year of strong growth.

### **DIRECTORS**

The directors who served during the period are shown on page 1.

None of the directors had any disclosable interest in the shares of the company or any other United Kingdom group company at any point during the period.

### **CHARITABLE DONATIONS**

During the period, the company made donations for charitable purposes which amounted to £373,888 (2003 – £579,000). No political donations were made (2003 - £nil).

### **EMPLOYEE INVOLVEMENT**

The directors ensure that the employees are informed of any significant matters affecting them as employees. Employees are encouraged to discuss with management factors affecting the company about which they are concerned.

The involvement of employees in business performance is encouraged through an employee share purchase plan. This scheme enables employees to purchase shares in Microsoft Corporation, the ultimate parent company, at 85% of their market value.

Suggestions from employees aimed at improving the company's performance are welcomed.

### **EMPLOYMENT OF DISABLED PERSONS**

The company recognises its social and statutory duty to employ disabled persons. It is the company's policy to give full and fair consideration to applications for employment from disabled persons.

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

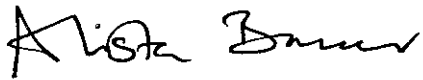
Where employees become disabled, the company endeavours to continue to employ such people, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

**DIRECTORS' REPORT**

**AUDITORS**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors. The company passed elective resolutions on 1 July 1990 dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

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

A handwritten signature in black ink, appearing to read 'A J Baker'.

A J Baker  
Director

2 / 6

2005

## 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;*
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a 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 LIMITED**

We have audited the financial statements of Microsoft Limited for the 53 weeks ended 2 July 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. 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 formed.

### **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 year 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 2 July 2004 and of its profit for the 53 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Deloitte & Touche LLP

**Chartered Accountants and Registered Auditors**

**Reading**

2/6/ 2005

**PROFIT AND LOSS ACCOUNT**  
**53 weeks ended 2 July 2004**

	Note	53 weeks ended 2 July 2004 £'000	52 weeks ended 27 June 2003 £'000
<b>TURNOVER</b>	2	460,610	405,356
Cost of sales		(46,135)	(57,822)
<b>GROSS PROFIT</b>		414,475	347,534
Distribution costs		(65,476)	(56,911)
Administrative expenses		(265,418)	(228,132)
<b>OPERATING PROFIT</b>	3	83,581	62,491
Dividends receivable	8	1,200	-
Amounts written off investments		(851)	-
Interest receivable and similar income	5	1,500	1,284
Interest payable and similar charges	6	(143)	(457)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		85,287	63,318
Tax on profit on ordinary activities	7	(26,627)	(20,923)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		58,660	42,395
Dividends	8	(25,000)	(40,000)
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>		33,660	2,395
<b>Profit and loss account brought forward</b>		12,807	10,412
<b>Profit and loss account carried forward</b>		46,467	12,807

There are no recognised gains and losses for the current financial period and preceding financial years other than as stated in the profit and loss account. Accordingly, no statement of total recognised gains and losses is presented.

All amounts derive from continuing operations.



**BALANCE SHEET**  
**2 July 2004**

	Note	2004 £'000	2003 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	10,626	9,715
Investments	10	-	851
		<u>10,626</u>	<u>10,566</u>
<b>CURRENT ASSETS</b>			
Debtors	11	113,259	120,816
Cash at bank and in hand		17,950	11,706
		<u>131,209</u>	<u>132,522</u>
<b>CREDITORS: amounts falling due within one year</b>	12	95,353	130,266
<b>NET CURRENT ASSETS</b>		<u>35,856</u>	<u>2,256</u>
<b>NET ASSETS</b>		<u>46,482</u>	<u>12,822</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	15	15
Profit and loss account		46,467	12,807
<b>EQUITY SHAREHOLDERS' FUNDS</b>	15	<u>46,482</u>	<u>12,822</u>

These financial statements were approved by the Board of Directors on 2 / 6 / 2005.

Signed on behalf of the Board of Directors



A J Baker  
Director

## NOTES TO THE ACCOUNTS

### 53 weeks ended 2 July 2004

#### 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.

Group accounts have not been prepared on the grounds of materiality. These financial statements therefore present information about Microsoft Limited as an individual undertaking and not as a group.

##### 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.

##### Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over their expected useful lives at the following rates:

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

##### 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

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen by the balance sheet date except as otherwise required by FRS 19 "Deferred Taxation".

##### Pension scheme

There is no company pension scheme but contributions are made to some employees' own pension schemes. The company has no pension liability at the balance sheet date.

##### Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

##### Foreign currencies

Transactions in foreign currencies during the year are translated into sterling 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 rates of exchange at the balance sheet date.

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

## NOTES TO THE ACCOUNTS

53 weeks ended 2 July 2004

## 2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the period. Turnover, all of which arises in the United Kingdom, is attributable to one activity, the marketing, distribution and support of systems and applications software. It includes commission receivable by the company under agreements with a fellow subsidiary.

	53 weeks ended 2 July 2004 £'000	52 weeks ended 27 June 2003 £'000
Sales to third parties	31,717	53,463
Sales within the group	428,893	351,893
	<u>460,610</u>	<u>405,356</u>

## 3. OPERATING PROFIT

	53 weeks ended 2 July 2004 £'000	52 weeks ended 27 June 2003 £'000
<b>Operating profit is stated after charging:</b>		
Rentals under operating leases		
Other operating leases	10,988	11,027
Depreciation – owned assets	<u>6,229</u>	<u>8,428</u>

The auditors' remuneration has been borne by another group company in both the current and prior periods.

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	53 weeks ended 2 July 2004 No.	52 weeks ended 27 June 2003 No.
<b>Average number of persons employed:</b>		
Sales and distribution	1,625	1,583
Administration	<u>63</u>	<u>46</u>
	<u>1,688</u>	<u>1,629</u>

**NOTES TO THE ACCOUNTS**  
**53 weeks ended 2 July 2004**

**4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

	<b>53 weeks ended 2 July 2004 £'000</b>	<b>52 weeks ended 27 June 2003 £'000</b>
<b>Staff costs (including directors):</b>		
Wages and salaries	114,362	97,654
Social security costs	14,120	11,361
Pension	8,276	3,763
	<u>136,758</u>	<u>112,778</u>

Two directors received remuneration and pension during the period (2003 - one), and this was as follows:

	<b>53 weeks ended 2 July 2004 £'000</b>	<b>52 weeks ended 27 June 2003 £'000</b>
Aggregate emoluments	<u>413</u>	<u>252</u>

The other directors receive their remuneration for services to group companies from Microsoft Corporation. The proportion of this remuneration that is allocated to their services to Microsoft Limited is £nil (2003:£nil).

The highest paid director received emoluments of £367,569 (2003 : £252,000).

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>53 weeks ended 2 July 2004 £'000</b>	<b>52 weeks ended 27 June 2003 £'000</b>
Interest receivable from parent company	1,500	547
Bank deposit interest receivable	-	542
Other	-	195
	<u>1,500</u>	<u>1,284</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>53 weeks ended 2 July 2004 £'000</b>	<b>52 weeks ended 27 June 2003 £'000</b>
Intercompany interest payable	90	114
Other	53	343
	<u>143</u>	<u>457</u>

**NOTES TO THE ACCOUNTS**

**53 weeks ended 2 July 2004**

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

	53 weeks ended 2 July 2004 £'000	52 weeks ended 27 June 2003 £'000
United Kingdom corporation tax at 30%	26,997	20,932
Adjustment in respect of prior years	(416)	1,122
Total current tax	26,581	22,054
Deferred tax	46	(1,131)
	<u>26,627</u>	<u>20,923</u>

**Reconciliation to current tax charge:**

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous years exceeds the standard rate for the reasons set out in the following reconciliation.

	53 weeks ended 2 July 2004 %	52 weeks ended 27 June 2003 %
Corporation tax at standard rate	30	30
Depreciation in excess of capital allowances	-	1
Capital items in revenue	-	2
Permanent adjustments	1	2
Total current tax charge	<u>31</u>	<u>35</u>

The standard rate of tax used in the above reconciliation is the average United Kingdom corporation tax rate for the period concerned as the vast majority of taxable income arises there.

**8. DIVIDENDS**

	53 weeks ended 2 July 2004 £'000	52 weeks ended 27 June 2003 £'000
Proposed – £1,667 per equity ordinary share (2003 – £2,667)	<u>25,000</u>	<u>40,000</u>
Receivable	<u>1,200</u>	<u>-</u>

**NOTES TO THE ACCOUNTS**  
**53 weeks ended 2 July 2004**

**9. TANGIBLE FIXED ASSETS**

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
<b>Cost</b>				
At 28 June 2003	17,706	34,158	3,453	55,317
Additions	2,759	4,315	-	7,074
Disposals	(186)	(11,525)	(297)	(12,008)
At 2 July 2004	20,279	26,948	3,156	50,383
<b>Accumulated depreciation</b>				
At 28 June 2003	13,753	30,053	1,796	45,602
Charge for the period	2,399	3,350	480	6,229
Disposals	(186)	(11,591)	(297)	(12,074)
At 2 July 2004	15,966	21,812	1,979	39,757
<b>Net book value</b>				
At 2 July 2004	4,313	5,136	1,177	10,626
At 27 June 2003	3,953	4,105	1,657	9,715

**10. INVESTMENTS**

Shares in group companies	£'000
As at 27 June 2003	851
Impairment	(851)
As at 2 July 2004	-

The wholly owned subsidiaries are Softimage Limited and TDIC Limited, companies incorporated in Great Britain. The results of these companies are not consolidated on the grounds of materiality. These financial statements therefore present information about Microsoft Limited as an individual undertaking and not as a group.

**NOTES TO THE ACCOUNTS**  
**53 weeks ended 2 July 2004**

**11. DEBTORS**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	19,625	15,757
Amounts owed by group undertakings:		
- fellow subsidiary undertakings	75,941	84,782
Other debtors	5,112	4,821
Prepayments and accrued income	7,785	10,614
Deferred tax asset	4,796	4,842
	<u>113,259</u>	<u>120,816</u>

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

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	11,694	8,453
Amounts owed to fellow subsidiary undertakings	3,269	6,201
Dividends payable	-	40,000
Other creditors	2,624	2,833
Other taxation and social security	20,297	16,823
Accruals and deferred income	57,469	55,956
	<u>95,353</u>	<u>130,266</u>

**13. DEFERRED TAX**

The deferred tax asset consists of the following amounts:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation in excess of capital allowances	<u>4,796</u>	<u>4,842</u>
		<b>£'000</b>
Balance at 27 June 2003		4,842
Charged to the profit and loss in the year		<u>(46)</u>
Balance at 2 July 2004		<u>4,796</u>

**NOTES TO THE ACCOUNTS**  
**53 weeks ended 2 July 2004**

**14. CALLED UP SHARE CAPITAL**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised, called up, allotted and fully paid</b>		
15,000 ordinary shares of £1 each	15	15

**15. MOVEMENTS ON SHAREHOLDERS' FUNDS**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial year	58,660	42,395
Dividends paid	(25,000)	(40,000)
Net addition to shareholders' funds	33,660	2,395
Opening shareholders' funds	12,822	10,427
Closing shareholders' funds	46,482	12,822

**16. OPERATING LEASE COMMITMENTS**

At 2 July 2004 the company was committed to making the following payments during the next year in respect of operating leases:

	<b>Land and buildings 2004 £'000</b>	<b>Land and buildings 2003 £'000</b>
Operating leases which expire:		
Within 1 year	7,721	2,090
Between 2 and 5 years inclusive	314	5,718
After 5 years	2,124	3,183
	10,159	10,991

**17. ULTIMATE PARENT UNDERTAKING**

The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. 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.

**18. 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.