

**MICROSOFT LIMITED**

**Report and Financial Statements**

**52 weeks ended 30 June 2000**

Deloitte & Touche  
Columbia Centre  
Market Street  
Bracknell  
Berkshire  
RG12 1PA



**REPORT AND FINANCIAL STATEMENTS 2000**

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**REPORT AND FINANCIAL STATEMENTS 2000**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

N J Holloway

J F Heitz

K J Fay (Appointed 31 January 2001)

J A Seethoff (Appointed 31 January 2001)

G Maffei (Resigned 7 January 2000)

R Eshelman (Resigned 31 January 2001)

D Svendsen (Resigned 1 March 2000)

J G Connors (Appointed 7 January 2000, Resigned 31 January 2001)

**SECRETARY**

R B Secretariat Limited

**REGISTERED OFFICE**

Microsoft Campus  
Thames Valley Park  
Reading  
Berkshire  
RG6 1WG

**BANKERS**

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

Citibank, N.A.  
PO Box 449  
Riverdale House  
Molesworth Street  
London  
SE13 7EU

**SOLICITORS**

Linklaters & Alliance  
One Silk Street  
London EC2Y 8HQ

Kemp & Co  
Saddlers House  
Gutter Lane  
London EC2V 6BR

The Law Offices of Marcus J O'Leary  
Centennial Court  
Easthampstead Road  
Bracknell  
Berkshire RG12 1YQ

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

Covington & Burling  
Leconfield House  
Curzon Street  
London  
W1Y 8AS

**REPORT AND FINANCIAL STATEMENTS 2000**

**OFFICERS AND PROFESSIONAL ADVISERS**

**AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Columbia Centre  
Market Street  
Bracknell  
Berkshire  
RG12 1PA

**TAX ADVISERS**

Arthur Andersen  
Abbots House  
Abbey Street  
Reading  
Berkshire  
RG1 3BD

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 52 weeks ended 30 June 2000.

### **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 7.

### **DIVIDENDS**

No dividend has been proposed from reserves for the period (1999 – £79 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 interest in the shares of the company or any other group company at any point during the period.

### **CHARITABLE DONATIONS**

During the period, the company made donations for charitable purposes which amounted to £216,000 (1999 – £502,000). No political donations were made (1999 – £nil).

## DIRECTORS' REPORT

### 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.

### AUDITORS

Deloitte & Touche 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

**RB SECRETARIAT LIMITED**

  
by

**Director/Secretary**

R B Secretariat Limited  
Company Secretary

3/56 October 2001

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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;
- 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **MICROSOFT LIMITED**

### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the financial statements on pages 7 to 14 which have been prepared under the accounting policies set out on page 9.

#### **Respective responsibilities of directors and auditors**

As described on page 5 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

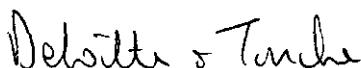
#### **Basis of opinion**

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 30 June 2000 and of its profit for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.



**DELOITTE & TOUCHE**

Chartered Accountants and  
Registered Auditors

20 December 2001



**PROFIT AND LOSS ACCOUNT**  
**52 Weeks ended 30 June 2000**

	Note	52 weeks ended 30 June 2000 £'000	53 weeks ended 2 July 1999 £'000
<b>TURNOVER</b>	2	215,399	225,484
Cost of sales		(23,297)	(20,544)
<b>GROSS PROFIT</b>		192,102	204,940
Distribution costs		(49,526)	(39,991)
Administrative expenses		(117,060)	(96,160)
Other operating income		35	528
<b>OPERATING PROFIT</b>	3	25,551	69,317
Interest receivable and similar income	5	554	2,228
Interest payable and similar charges	6	(659)	(218)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		25,446	71,327
Tax on profit on ordinary activities	7	(11,500)	(23,600)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		13,946	47,727
Dividends paid	8	-	(79,000)
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR, TRANSFERRED TO/(FROM) RESERVES</b>		13,946	(31,273)
Profit and loss account brought forward		4,024	35,297
Profit and loss account carried forward		17,970	4,024

All amounts derive from continuing operations.

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

**BALANCE SHEET**  
**30 June 2000**

	Note	2000 £'000	1999 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	7,091	8,725
Investments	10	987	1
		<u>8,078</u>	<u>8,726</u>
<b>CURRENT ASSETS</b>			
Debtors	11	57,639	49,920
Cash at bank and in hand		1,756	1,550
		<u>59,395</u>	<u>51,470</u>
<b>CREDITORS: amounts falling due within one year</b>			
Overdrafts		1,360	-
Trade creditors		2,268	7,150
Amounts owed to group undertakings:			
Parent company		284	42
Fellow subsidiary undertakings		12,350	144
Other creditors including taxation and social security	12	13,417	33,938
Accruals and deferred income		19,809	14,883
		<u>49,488</u>	<u>56,157</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>9,907</u>	<u>(4,687)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>17,985</u>	<u>4,039</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	15	15
Profit and loss account		17,970	4,024
<b>EQUITY SHAREHOLDERS' FUNDS</b>	14	<u>17,985</u>	<u>4,039</u>

These financial statements were approved by the Board of Directors on 23<sup>rd</sup> October 2001.

Signed on behalf of the Board of Directors



N J Holloway  
Director

**NOTES TO THE ACCOUNTS**  
**Year ended 30 June 2000****1. ACCOUNTING POLICIES**

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

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**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 provided on timing differences arising from different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is estimated that tax will arise.

**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.

**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.

NOTES TO THE ACCOUNTS  
Year ended 30 June 2000

## 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.

	2000 £'000	1999 £'000
Sales to third parties	22,430	16,422
Sales within the group	192,969	209,062
	<u>215,399</u>	<u>225,484</u>

## 3. OPERATING PROFIT

	2000 £'000	1999 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Rentals under operating leases		
Hire of plant and machinery	2,425	2,037
Land and buildings	7,672	6,117
Auditors' remuneration - other services	7	7
Depreciation - owned assets	6,507	8,467
Foreign currency (gains)/losses	(25)	17
	<u>          </u>	<u>          </u>

The auditors' remuneration has been borne by another group company.

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000 No.	1999 No.
<b>Average number of persons employed:</b>		
Sales and distribution	1,008	850
Administration	40	30
	<u>1,048</u>	<u>880</u>

## NOTES TO THE ACCOUNTS

Year ended 30 June 2000

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

	2000 £'000	1999 £'000
Staff costs (including directors):		
Wages and salaries	64,524	36,280
Social security costs	8,321	3,822
	<u>72,845</u>	<u>40,102</u>

Two directors received remuneration and pension during the period (1999 - 2), and this was as follows:

	2000 £'000	1999 £'000
Aggregate emoluments	291	341
Contributions to money purchase pension scheme	5	6
Other emoluments	<u>296</u>	<u>347</u>

Aggregate emoluments include amounts paid to the highest paid director

Aggregate emoluments	150	211
Contributions to money purchase pension scheme	-	6
	<u>-</u>	<u>6</u>

## 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2000 £'000	1999 £'000
Interest receivable from parent company	278	1,650
Bank deposit interest receivable	276	578
	<u>554</u>	<u>2,228</u>

## 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000
Intercompany interest payable	610	-
Bank loans and overdrafts	49	218
	<u>659</u>	<u>218</u>

## 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000 £'000	1999 £'000
UK corporation tax at 30%	11,500	23,600
	<u>11,500</u>	<u>23,600</u>

The tax charge is disproportionately high due to the level of disallowable expenditure.

NOTES TO THE ACCOUNTS  
Year ended 30 June 2000

## 8. DIVIDENDS

	2000 £'000	1999 £'000
No dividend has been paid or proposed in 2000 (1999 - paid : £5,266 per ordinary share)	-	79,000

## 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 3 July 1999	7,684	16,496	2,130	26,310
Additions	1,201	3,649	38	4,888
Disposals	-	(2,529)	-	(2,529)
At 30 June 2000	8,885	17,616	2,168	28,669
<b>Accumulated depreciation</b>				
At 3 July 1999	3,798	13,292	495	17,585
Charge for the period	2,256	3,823	428	6,507
Disposals	-	(2,514)	-	(2,514)
At 30 June 2000	6,054	14,601	923	21,578
<b>Net book value</b>				
At 30 June 2000	2,831	3,015	1,245	7,091
At 2 July 1999	3,886	3,204	1,635	8,725

## 10. INVESTMENTS

	£'000
<b>Shares in group companies</b>	
At 3 July 1999	1
Additions	986
At 30 June 2000	987

The wholly owned subsidiary is Softimage Limited and STNC 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  
Year ended 30 June 2000

## 11. DEBTORS

	2000 £'000	1999 £'000
Trade debtors	5,583	4,104
Amounts owed by group undertakings:		
- parent company	2,608	2,949
- fellow subsidiary undertakings	40,459	16,567
Other debtors	5,512	22,747
Prepayments and accrued income	3,477	3,553
	<u>57,639</u>	<u>49,920</u>

Prepayments and accrued income include £646,206 (1999 - £691,475) which is due after more than one year.  
All other debts are due within one year.

## 12. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2000 £'000	1999 £'000
<b>This heading includes:</b>		
Taxation and social security	<u>11,358</u>	<u>30,645</u>

## 13. CALLED UP SHARE CAPITAL

	2000 £'000	1999 £'000
<b>Authorised, called up, allotted and fully paid</b>		
15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

## 14. MOVEMENTS ON SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Profit for the financial year	13,946	47,727
Dividends paid	-	(79,000)
Net increase/(reduction) to shareholders' funds	<u>13,946</u>	<u>(31,273)</u>
Opening shareholders' funds	4,039	35,312
Closing shareholders' funds	<u>17,985</u>	<u>4,039</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 June 2000****15. COMMITMENTS AND CONTINGENT LIABILITIES**

At 30 June 2000 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2000 £'000	Other 2000 £'000	Land and Buildings 1999 £'000	Other 1999 £'000
Operating leases which expire:				
Within 1 year	591	342	-	431
Between 2 and 5 years inclusive	4,492	349	3,036	691
After 5 years	5,817	-	3,080	-
	<u>10,900</u>	<u>691</u>	<u>6,117</u>	<u>1,122</u>

**16. 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. 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.

**17. 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.