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MICROSOFT LIMITED

Report and Financial Statements

30 June 1991

Touche Ross & Co.
Hill House
1 Little New Street
London EC4A 3TR



REPORT AND FINANCIAL STATEMENTS 1991

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M.W. Brown
F.J. Gaudette
M.R. Hallman
D.E. Svendsen

SECRETARY

Legibus Limited

REGISTERED OFFICE

35 Windsor Road
Slough
Berkshire SL1 2LB

BANKERS

National Westminster Bank Plc
Windsor Branch
12 The High Street
Windsor

SOLICITORS

Brain & Brain	Clifford Chance
Addington House	Royex House
73 London Street	Aldermanbury Square
Reading	London EC2V 7LD.
Berks RG1 4QB	

AUDITORS

Touche Ross & Co.
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the company for the year ended 30 June 1991.

ACTIVITIES

Microsoft Limited, a subsidiary of Microsoft Corporation, markets, distributes and supports a wide range of software for business and professional 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 areas of business activity have been in the United Kingdom.

RESULTS AND DIVIDEND

Microsoft has had an extremely successful year in which turnover has more than doubled. The company is investing in resources to meet future growth. Staff numbers has increased significantly and £11.2 million has been spent developing the site of the new headquarters at Winnersh.

The retained profits for the year amounted to £2,078,000 (1990 - £3,658,000). The directors do not recommend the payment of a dividend.

FUTURE PROSPECTS

The company is looking forward to another year of strong growth in 1992. The company is aiming to improve its efficiency by relocating office premises to the new headquarters in December 1991. Sourcing inventory from Ireland should improve still further the company's distribution services.

FIXED ASSETS

Movements in fixed assets are detailed in note 8 to the accounts.

DIRECTORS

The directors all of whom held office throughout the year and have continued in office since the year end are set out on page 1, with the exception of M.W. Brown who was appointed on 30 June 1991 to replace J. Butler who resigned from office on 30 June 1991.

The directors had no interests in the company's shares.

AUDITORS

Touche Ross & Co. have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

For and on behalf of LEGIBUS SECRETARIES LTD.

Secretary

31 October 1991

A.O. Don

Authorized Signatory

**Touche
Ross**



Chartered Accountants

Touche Ross & Co.
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London EC4A 3TR

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MICROSOFT LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 4 to 12 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1991 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Touche Ross & Co.

Chartered Accountants

31 October 1991

Member
DRY International

Aberdeen, Belfast, Birmingham, Bolton, Bournemouth, Bracknell, Bristol, Cambridge, Cardiff, Chester, Coleraine, Crawley, Croydon, Darford, Dudley, Edinburgh, Glasgow, Hull, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newark, Newcastle upon Tyne, Newport, Newry, Nottingham, Peterborough, Southampton, Swansea and Uxbridge

Principal place of business at which a list of partners' names is available
Hill House, 1 Little New Street, London EC4A 3TR

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.



PROFIT AND LOSS ACCOUNT
Year ended 30 June 1991

	Note	1991 £'000	1990 £'000
TURNOVER	2	45,395	26,818
Cost of sales		<u>25,153</u>	<u>13,745</u>
GROSS PROFIT		20,242	13,073
Distribution costs		5,480	2,697
Administrative expenses		<u>9,019</u>	<u>4,474</u>
OPERATING PROFIT		5,743	5,902
Interest receivable and similar income	5	271	278
Interest payable and similar charges	6	<u>(1,745)</u>	<u>(262)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	4,269	5,918
Tax on profit on ordinary activities	7	<u>2,191</u>	<u>2,260</u>
PROFIT FOR THE FINANCIAL YEAR		2,078	3,658
Profit and loss account brought forward		<u>5,826</u>	<u>2,168</u>
Profit and loss account carried forward		<u><u>7,904</u></u>	<u><u>5,826</u></u>



BALANCE SHEET
30 June 1991

	Note	£'000	1991 £'000	1990 £'000
FIXED ASSETS				
Tangible assets	8		26,565	14,724
CURRENT ASSETS				
Stocks	9	3,023		4,576
Debtors	10	7,030		6,748
Cash at bank and in hand		6		2,095
		<u>10,059</u>		<u>13,419</u>
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank loans and overdrafts		2,512		-
Trade creditors		1,519		1,309
Amounts owed to group companies				
holding company		1,324		1,374
fellow subsidiaries		4,307		2,464
Other creditors including taxation and social security	11	<u>5,669</u>		<u>3,881</u>
		<u>15,331</u>		<u>9,028</u>
NET CURRENT ASSETS			<u>(5,272)</u>	<u>4,391</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			21,293	19,115
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
	12		(12,765)	(12,765)
PROVISIONS FOR LIABILITIES AND CHARGES				
	13		<u>(608)</u>	<u>(509)</u>
			<u>7,920</u>	<u>5,841</u>
CAPITAL AND RESERVES				
Called up share capital	14		15	15
Profit and loss account	15		<u>7,905</u>	<u>5,826</u>
			<u>7,920</u>	<u>5,841</u>

These financial statements were approved by the Board of Directors on 21st October 1991
Signed on behalf of the board of Directors



SOURCE AND APPLICATION OF FUNDS
Year ended 30 June 1991

	1991 £'000	1990 £'000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	4,269	5,918
Adjustments for items not involving the movement of funds:		
Depreciation	963	522
Increase in rebates provision	100	-
TOTAL GENERATED FROM OPERATIONS	5,332	6,440
Long term loan from group company	-	12,765
Decrease in stocks	1,553	-
Increase in creditors falling due within one year	4,200	2,894
TOTAL SOURCE OF FUNDS	11,085	22,099
APPLICATION OF FUNDS		
Purchase of tangible fixed assets	12,804	14,159
Corporation tax paid	2,600	765
Increase in stocks	-	3,455
Increase in debtors	282	3,363
TOTAL APPLICATION OF FUNDS	15,686	21,741
(DECREASE) INCREASE IN NET LIQUID FUNDS	(4,601)	358

(Net liquid funds comprise cash at bank and in hand).



NOTES TO THE ACCOUNTS
30 June 1991

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with statements of standard accounting practice issued by UK accountancy bodies. The particular accounting policies adopted are described below.

a) Accounting convention

The financial statements have been prepared under the historical cost convention.

b) Fixed assets

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

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

Computer equipment	33.33% per annum
Office equipment, furniture and fittings	10% per annum
Technical equipment	10% per annum
Leasehold improvements	Over the life of the lease
Freehold land	Not depreciated

c) Leases

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

d) Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising 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 to the extent that it is probable that a liability or asset will crystallise in the future.

e) Foreign currencies

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

Assets and liabilities denominated in foreign currencies are translated at the closing rates of exchange at the balance sheet date.

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

f) Stocks

Stocks are stated in the balance sheet at the lower of cost and net realisable value. Cost is the purchase price of the goods including inbound freight costs and is calculated using the average cost basis.

g) Provision for customer rebates

The provisions for customer rebates represent the directors' best estimate of the future liabilities which will crystallise in respect of rebate agreements.



NOTES TO THE ACCOUNTS

30 June 1991

2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the year and includes commission income.

Commission income represents amounts received and receivable from the parent company in respect of sales invoiced by them to customers which fall within the company's territory.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging

	1991 £'000	1990 £'000
Foreign currency losses	16	17
Hire of plant and machinery - operating leases	459	200
Hire of other assets - operating leases	248	199
Auditors' remuneration	31	20
Depreciation	963	522

4. DIRECTORS AND EMPLOYEES

The average number of persons employed by the company during the year was:

	1991 No.	1990 No.
Directors	1	1
Other employees	128	75
	<u>129</u>	<u>76</u>

	£'000	£'000
Staff costs		
Wages and salaries	3,407	1,421
Social security costs	354	336
	<u>3,761</u>	<u>1,757</u>

The remuneration paid to the one director who received remuneration during the year was

	1991 £'000	1990 £'000
Other emoluments	84	69

The other directors are remunerated by other group companies.



NOTES TO THE ACCOUNTS
30 June 1991

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1991 £'000	1990 £'000
Bank deposit interest receivable	271	278

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1991 £'000	1990 £'000
Interest payable on a loan from fellow subsidiary company	1,723	-
Interest payable to holding company	22	251
Interest payable on hire purchase contracts and finance leases	-	11
	<u>1,745</u>	<u>262</u>

7. TAX ON PROFITS ON ORDINARY ACTIVITIES

	1991 £'000	1990 £'000
U.K. corporation tax at 33.75% - current	2,191	2,260

The tax charge for the year has been inflated by deferred tax timing differences of approximately £620,000 (1990 - £127,000) which have not been recognised as an asset.

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Office equipment, furniture, & fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
COST					
At 1 July 1990	13,063	422	1,637	947	16,069
Additions	11,228	165	1,177	235	12,804
At 30 June 1991	<u>24,291</u>	<u>587</u>	<u>2,814</u>	<u>1,182</u>	<u>28,873</u>
DEPRECIATION					
At 1 July 1990	-	92	672	581	1,345
Charge for year	-	85	560	318	963
At 30 June 1991	-	<u>177</u>	<u>1,232</u>	<u>899</u>	<u>2,308</u>
NET BOOK VALUE					
At 30 June 1991	<u>24,291</u>	<u>410</u>	<u>1,582</u>	<u>283</u>	<u>26,565</u>
At 30 June 1990	<u>13,063</u>	<u>330</u>	<u>965</u>	<u>367</u>	<u>14,724</u>



NOTES TO THE ACCOUNTS
30 June 1991

8. TANGIBLE FIXED ASSETS (continued)

During the year, the company spent £11,228,000 developing the freehold site at Winnersh Triangle, Wokingham which was purchased in May 1990, and is intended to be the new head office facility.

Whilst the directors are conscious of the fact that property prices have in general fallen significantly since the purchase was made, they do not believe that any permanent diminution in value has occurred, particularly in view of the company's firm intention to occupy the site for the foreseeable future.

Accordingly no provision has been made for any reduction in value.

Depreciation of freehold buildings will start once construction is complete.

9. STOCKS

	1991 £'000	1990 £'000
Finished goods	<u>3,023</u>	<u>4,576</u>

10. DEBTORS

	1991 £'000	1990 £'000
Amounts falling due within one year:		
Trade debtors	5,503	4,102
Other debtors	8	11
Prepayments and accrued income	419	368
Amounts owed by group companies:		
holding company	285	94
fellow subsidiaries	447	162
Value added tax recoverable	<u>368</u>	<u>2,011</u>
	<u>7,030</u>	<u>6,748</u>

11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1991 £'000	1990 £'000
This heading includes:		
Taxation and social security	<u>2,571</u>	<u>2,914</u>



NOTES TO THE ACCOUNTS
30 June 1991

12. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1991	1990
	£'000	£'000
Long term loan from fellow subsidiary company	12,765	12,765

The loan was taken out to finance the acquisition of the freehold land purchased in May 1990 and is secured by a legal charge over the land. The loan bears interest at 13.5% per annum and must be repaid by 30 June 2007.

13. PROVISIONS FOR LIABILITIES AND CHARGES

	1991	1990
	£'000	£'000
Provision for customer rebates	608	509

14. CALLED UP SHARE CAPITAL

	1991	1990
	£'000	£'000
Authorised, allotted and fully paid 15,000 ordinary shares of £1 each	15	15

15. RESERVES

	Profit and loss account £'000
At 1 July 1990	5,825
Retained profit for the year	2,079
At 30 June 1991	7,905



NOTES TO THE ACCOUNTS
30 June 1991

16. COMMITMENTS

At 30 June 1991 the company had annual commitments under operating leases due during the next year as follows

	1991		1990	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within 1 year	207	38	-	-
Between 2 and 5 years inclusive	65	400	248	-
	<u>272</u>	<u>438</u>	<u>248</u>	<u>-</u>

The company is committed to further expenditure of £4,600,000 in developing the site at Winnersh, which is intended to become the new head office.

17. ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of Microsoft Corporation, which is incorporated in the United States of America.

Copies of Microsoft Corporation's annual report are available upon written request, from the Investor Relations Department, Microsoft Corporation, One Microsoft Way, Redmond, Washington 98052-6399, USA.

Microsoft Limited purchases all of its inventory from the ultimate holding company and fellow subsidiary companies.