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MICROSOFT LIMITED

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE 1985

MICROSOFT LIMITED

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE 1985

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MICROSOFT LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 30th June 1985.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is the marketing, distribution and support of computer software products, mainly wordprocessing and spreadsheet software, to trade customers in UK and Nordic countries. The company acts as agent for the Microsoft Corporation who sell system software to computer companies in the UK and Scandinavia.

Operationally the year was profitable, but the company was adversely effected by the strength of the dollar which over the year resulted in a trading loss.

Current levels of business plus weakening of the dollar indicates that the next financial year will be profitable.

RESULTS AND DIVIDENDS

The loss for the period amounted to £60,757 (1984 - £326,934), which has been taken to reserves. The directors do not recommend the payment of a dividend.

FIXED ASSETS

Changes in the fixed assets of the company are set out in note 6 to the accounts.

DIRECTORS

The directors who held office during the year were:

S.A. Ballmer
D.J. Fraser
W.H. Gates
S. Oki

DIRECTORS' INTERESTS

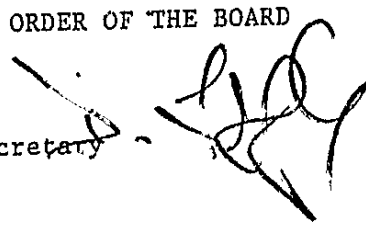
None of the directors had any interest in the share capital of the company or any other company in the group during the year which would require disclosure.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the company will be put to the annual general meeting.

BY ORDER OF THE BOARD

Secretary




MICROSOFT LIMITED

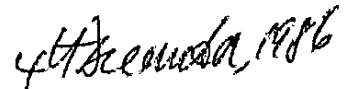
AUDITORS' REPORT
TO THE MEMBERS OF MICROSOFT LIMITED

We have audited the accounts on pages 4 to 13 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 30th June 1985 and of its loss and source and application of funds for the year then ended and comply with the Companies Act 1985.



DELOITTE HASKINS & SELLS
Chartered Accountants



Reading

MICROSOFT LIMITED

ACCOUNTING POLICIES

The accounts have been prepared on the historical cost basis of accounting. In the financial statements the following accounting policies have been adopted:

(a) 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 this company's territory.

(b) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation.

(c) Depreciation

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

Motor vehicles	25% per annum
Computer equipment	33 1/3% per annum
Office equipment, furniture and fittings	10% per annum
Technical equipment	10% per annum
Leasehold improvements	25% per annum

(d) Leased assets and assets under hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account using the straight line method.

All other leases are "operating leases", and the annual rentals are charged to the profit and loss account on a straight-line basis over the lease term.

(e) Deferred taxation

Deferred taxation is calculated on the liability method for all material timing differences except where it can reasonably be demonstrated that no corporation tax liability will arise in the foreseeable future.

MICROSOFT LIMITED

ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies

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

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

(g) Stocks

Stocks are stated in the balance sheet at the lower of cost and net realisable value.

MICROSOFT LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 1985

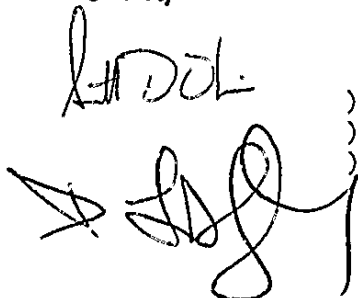
	<u>Notes</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
TURNOVER		3,973,250	1,662,931
Net operating expenses	1	<u>3,875,530</u>	<u>1,996,889</u>
OPERATING PROFIT/(LOSS)		97,720	(333,958)
Investment income	3	<u>33,284</u>	<u>7,113</u>
PROFIT/(LOSS) BEFORE INTEREST PAYABLE		131,004	(326,845)
INTEREST PAYABLE	4	<u>191,761</u>	<u>89</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(60,757)	(326,934)
Taxation	5	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR		<u>£(60,757)</u>	<u>£(326,934)</u>

MICROSOFT LIMITED

BALANCE SHEET
AT 30TH JUNE 1985

	<u>Notes</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
FIXED ASSETS			
Tangible assets	6	<u>103,444</u>	<u>97,950</u>
CURRENT ASSETS			
Stocks	7	1,076,680	494,440
Debtors	8	392,067	408,959
Cash at bank and in hand		248,260	492,864
		<u>1,717,007</u>	<u>1,396,263</u>
CURRENT LIABILITIES - CREDITORS:			
AMOUNTS FALLING DUE WITHIN ONE YEAR	9	<u>2,347,532</u>	<u>1,954,325</u>
		<u>(630,525)</u>	<u>(568,062)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(527,081)</u>	<u>(470,112)</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		<u>(3,788)</u>	<u>-</u>
NET LIABILITIES		<u>£(530,869)</u>	<u>£(470,112)</u>
CAPITAL AND RESERVES			
Called-up share capital	11	15,000	15,000
Profit and loss account	12	<u>(545,869)</u>	<u>(485,112)</u>
		<u>£(530,869)</u>	<u>£(470,112)</u>

The accounts on pages 4 to 13 were approved by the board of directors on 10th September 1986 and were signed on its behalf by:



Directors

MICROSOFT LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30TH JUNE 1985

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
SOURCE OF FUNDS		
Loss on ordinary activities before taxation	(60,757)	(326,934)
Items not involving the movement of funds:		
Depreciation	55,584	37,807
Loss on disposal of fixed assets	-	1,401
FUNDS ABSORBED BY OPERATIONS	<u>(5,173)</u>	<u>(287,726)</u>
Obligations under hire purchase contracts	23,133	-
Proceeds of share issue	-	14,998
Proceeds of disposals of tangible fixed assets	-	5,880
TOTAL SOURCE OF FUNDS	<u>17,960</u>	<u>(266,848)</u>
APPLICATION OF FUNDS		
Repayments to hire purchase creditors	(8,945)	-
Purchase of tangible fixed assets	(61,078)	(98,239)
	<u>(70,023)</u>	<u>(98,239)</u>
NET DECREASE IN FUNDS	<u>£(52,063)</u>	<u>£(365,087)</u>
THE NET DECREASE IN FUNDS IS REPRESENTED BY THE FOLLOWING DECREASE IN WORKING CAPITAL		
Stocks	582,240	487,168
Debtors	(16,892)	376,925
Creditors falling due within one year	(372,807)	(1,707,480)
	<u>192,541</u>	<u>(843,387)</u>
Movements in net liquid funds:		
Cash at bank and in hand	<u>(244,604)</u>	<u>478,300</u>
DECREASE IN WORKING CAPITAL	<u>£(52,063)</u>	<u>£(365,087)</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE 1985

I. NET OPERATING EXPENSES

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Change in stocks of finished goods	(582,240)	(487,168)
Other operating income	(49,605)	-
Other external charges	3,114,147	1,484,803
Staff costs (see Note 2)	337,430	151,465
Depreciation of tangible fixed assets	55,584	37,807
Other operating charges	1,000,304	809,982
	<u>£3,875,530</u>	<u>£1,996,889</u>

Other operating income comprises foreign currency gains of £49,695 (1984: £Nil).

Other operating charges are stated after charging:

Hire of plant and machinery		
- operating leases	20,213	11,715
- other hire costs	10,893	4,555
	<u>31,106</u>	<u>16,270</u>
 Hire of other assets - operating leases	 72,500	 65,657
Foreign currency exchange differences	-	116,855
Auditors' remuneration (including expenses)	<u>9,300</u>	<u>5,750</u>

Amounts charged to revenue in respect of sums payable for the hire of plant and machinery under hire purchase contracts are shown separately under the headings of depreciation £5,783 (1984: £Nil) and interest payable £874 (1984: £Nil).

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE 1985 (CONTINUED)

2. DIRECTORS AND EMPLOYEES

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

	<u>1985</u>	<u>1984</u>
Directors	1	1
Other employees	21	9
	<u>22</u>	<u>10</u>
	<u>1985</u>	<u>1984</u>
	£	£
Staff costs:		
Wages and salaries	314,074	143,064
Social security costs	23,356	8,401
	<u>£337,430</u>	<u>£151,465</u>

No employees other than directors, received remuneration in excess of £30,000.

The remuneration paid to directors was:

	<u>1985</u>	<u>1984</u>
	£	£
Other emoluments	<u>£43,889</u>	<u>£30,077</u>

Only one director received remuneration during the year.

3. INVESTMENT INCOME

	<u>1985</u>	<u>1984</u>
	£	£
Bank deposit interest	<u>£33,284</u>	<u>£7,113</u>

4. INTEREST PAYABLE

	<u>1985</u>	<u>1984</u>
	£	£
Interest payable to holding company	190,702	-
On bank overdraft and loans repayable within 5 years, not by instalments	185	89
Interest payable on hire purchase contracts	<u>874</u>	<u>-</u>
	<u>£191,761</u>	<u>£89</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE 1985 (CONTINUED)

5. TAXATION

No liability to U.K. corporation tax arises in the period. The company has losses as computed for taxation purposes of approximately £584,000 (1984: £542,000) available to be carried forward to future periods (not yet agreed by H.M. Inspector of Taxes). These losses include approximately £58,000 (1984: £74,000) due to the excess of capital allowances over depreciation.

6. TANGIBLE FIXED ASSETS

	Motor Vehicles £	Office equipment, furniture, fittings £	Computer and technical equipment £	Leasehold improvements £	Total £
<u>COST</u>					
At 1st July 1984	17,550	41,461	89,080	1,747	149,838
Additions	23,133	5,034	31,179	1,732	61,078
At 30th June 1985	40,683	46,495	120,259	3,479	210,916
<u>DEPRECIATION</u>					
At 1st July 1984	8,775	5,450	37,226	437	51,888
Charge for the year	10,170	4,649	39,894	871	55,584
At 30th June 1985	18,945	10,099	77,120	1,308	107,472
<u>NET BOOK VALUE</u>					
At 30th June 1985	£21,738	£36,396	£43,139	£2,171	£103,444
At 30th June 1984	£8,775	£36,011	£51,854	£1,310	£97,950

The net book value of tangible fixed assets includes an amount of £17,350 (1984: £Nil) in respect of assets held under hire purchase contracts.

7. STOCKS

	1985	1984
Finished goods	£1,076,680	£494,440

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE 1985 (CONTINUED)

8. DEBTORS

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Amounts falling due within one year:		
Trade debtors	332,159	351,681
Other debtors	8,217	1,187
Prepayments and accrued income	28,558	40,770
Amounts owed by group companies	23,133	15,321
	<u>£392,067</u>	<u>£408,959</u>

9. CREDITORS

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Amounts falling due within one year:		
Obligations under hire purchase contracts	10,400	-
Trade creditors	78,125	152,753
Amount owed to group companies	2,131,809	1,632,766
Other creditors	32,968	-
Taxation and social security payable	31,019	49,213
Accruals and deferred income	63,211	129,593
	<u>£2,347,532</u>	<u>£1,964,325</u>
Amounts falling due after more than one year:		
Obligations under hire purchase contracts	£3,788	£ -
Obligations under hire purchase contracts are repayable as follows:		
Under one year	10,400	-
Over one year:		
Between two and five years inclusive	3,788	-
In over five years or more	-	-
	<u>£14,188</u>	<u>£ -</u>

10. DEFERRED TAXATION

Deferred taxation at 35% provided in the financial statements, and the total potential liabilities are as follows:

	<u>Amount provided</u>		<u>Total potential liability</u>	
	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Capital allowances	20,145	33,200	20,145	33,200
Losses	(20,145)	(33,200)	(20,145)	(33,200)
	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

MICROSOFT LIMITED

NOTES TO THE ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE 1985 (CONTINUED)

11. CALLED-UP SHARE CAPITAL

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
<u>Authorised</u>		
Ordinary shares of £1 each	<u>£15,000</u>	<u>£15,000</u>
<u>Allotted, called up and fully paid</u>		
Ordinary shares of £1 each	<u>£15,000</u>	<u>£15,000</u>

12. RESERVES

	<u>1985</u> <u>£</u>
Profit and Loss Account	
At 1st July 1984	(485,112)
Loss for the year	<u>(60,757)</u>
At 30th June 1985	<u>£(545,869)</u>

13. COMMITMENTS UNDER OPERATING LEASES

	<u>1985</u>		<u>1984</u>	
	<u>Land and</u> <u>Buildings</u> <u>£</u>	<u>Other</u> <u>£</u>	<u>Land and</u> <u>Buildings</u> <u>£</u>	<u>Other</u> <u>£</u>
At 30th June the company had annual commitments under operating leases as follows:				
Expiring within one year	-	-	-	-
Expiring between two and five years inclusive	12,500	21,989	12,500	18,174
Expiring in five years or more	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
	<u>£72,500</u>	<u>£21,989</u>	<u>£72,500</u>	<u>£18,174</u>

14. ULTIMATE HOLDING COMPANY

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