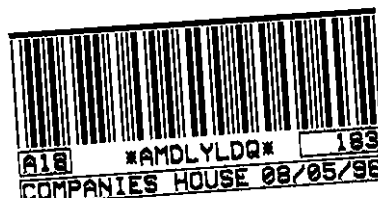




MICROSOFT PROPERTIES UK LIMITED

Report and Financial Statements

30 June 1995



**Deloitte & Touche
Hill House
1 Little New Street
London
EC4A 3TR**



REPORT AND FINANCIAL STATEMENTS 1995

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REPORT AND FINANCIAL STATEMENTS 1995

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M W Brown
D Svendsen
D Curtis

SECRETARY

G C S C Francis

REGISTERED OFFICE

Microsoft Place
Winnersh
Wokingham
Berkshire
RG11 5TP

BANKERS

Citibank
Citibank House
336 Strand
London
WC2R 1HB

SOLICITORS

Brain & Brain
Addington House
73 London Street
Reading
Berkshire
RG1 4QB

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London
EC4A 3TR

TAXATION 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 year ended 30 June 1995.

ACTIVITIES

The principal activity of the company is property investment.

REVIEW OF DEVELOPMENTS

During the year the company has continued to operate satisfactorily.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (1994 - nil). The retained loss for the year of £9,010,000 (1994 - profit of £641,000) has been transferred from reserves.

FUTURE PROSPECTS

The company is soundly placed to continue its current activities.

FIXED ASSETS

Details regarding fixed assets are given in note 8 to the accounts. In the opinion of the directors, the value to the company of the cash flows which will result from the lease of its property to Microsoft Limited, a fellow subsidiary, no longer supports the carrying value of the property in the company's books. Accordingly, a provision of £9,876,000 has been recognised within administrative expenses in the profit and loss account, representing a permanent diminution in value of the property.

DIRECTORS

The current directors are listed on page 1. All directors served throughout the year and to date.

No director had any interest in the shares of the company or any other group company within the UK at any point during the year.

AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche, and accordingly have signed their audit report in their new name. A resolution for the reappointment of Deloitte & Touche as auditors of the company will be proposed at the forthcoming Annual General Meeting.

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



D Svendsen
Director

30th April 1996

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 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, safeguarding the assets of the company and for the prevention and detection of fraud and other irregularities.



Chartered Accountants

Deloitte & Touche
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1 Little New Street
London EC4A 3TR

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MICROSOFT PROPERTIES UK LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. 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 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 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

30 April 1996

PROFIT AND LOSS ACCOUNT
Year ended 30 June 1995

	Note	1995 £'000	1994 £'000
TURNOVER	2	1,720	1,720
Cost of sales		(392)	(392)
GROSS PROFIT		1,328	1,328
Administrative expenses (including in 1995 an exceptional write down on the property of £9,876,000)		(9,876)	(176)
OPERATING (LOSS)/PROFIT	3	(8,548)	1,152
Interest receivable and similar income	5	175	60
Interest payable and similar charges	6	(5)	(1)
RETAINED (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(8,378)	1,211
Tax on (loss)/profit on ordinary activities	7	(632)	(570)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR TRANSFERRED (FROM)/TO RESERVES	11	(9,010)	641

All activities derive from continuing operations. There are no recognised gains and losses for the current and preceding financial years 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 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	8	38,722	22,790
CURRENT ASSETS			
Debtors	9	4,598	481
Cash at bank and in hand		9	2,510
		<u>4,607</u>	<u>2,991</u>
CREDITORS: amounts falling due within one year			
Amounts owed to fellow subsidiaries		26,814	-
Taxation and social security		625	945
Accruals and deferred income		494	430
		<u>27,933</u>	<u>1,375</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(23,326)</u>	<u>1,616</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>15,396</u>	<u>24,406</u>
CAPITAL AND RESERVES			
Called up share capital	10	23,942	23,942
Profit and loss account	11	(8,546)	464
EQUITY SHAREHOLDERS' FUNDS		<u>15,396</u>	<u>24,406</u>

These financial statements were approved by the Board of Directors on 30th April 1996.

Signed on behalf of the Board of Directors



D Svendsen
 Director

CASH FLOW STATEMENT
Year ended 30 June 1995

	Note	1995 £'000	1994 £'000
Net cash inflow from operating activities	12	24,405	1,490
Returns on investments and servicing of finance			
Interest income received		175	60
Interest paid		(5)	(1)
Net cash inflow from returns on investments and servicing of finance		170	59
Taxation			
UK corporation tax paid		(876)	-
Net tax paid		(876)	-
Investing activities			
Payments to acquire tangible fixed assets		(26,200)	-
Net cash outflow from investing activities		(26,200)	-
Net cash (outflow)/ inflow before financing		(2,501)	1,549
Repayment of amounts due to fellow subsidiaries		-	(73)
Net cash outflow from financing		-	(73)
(Decrease)/increase in cash and cash equivalents	13	(2,501)	1,476



NOTES TO THE ACCOUNTS

Year ended 30 June 1995

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. The company is reliant on the continued financial support of its parent company. The parent company has indicated that such support will be forthcoming and accordingly the financial statements have been prepared on a going concern basis.

The properties do not qualify to be treated as investment properties as defined by SSAP19 and accordingly have not been revalued to market value but are subject to annual depreciation.

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:

Freehold land	Not depreciated
Freehold buildings	2½ to 10% per annum

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 rates at which it is estimated that tax will arise.

Leases

Rental income from operating leases is recognised on a straight line basis over the period up to the next rent review under the terms of the lease.

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

2. TURNOVER

Turnover represents rental income from property, excluding value added tax. All turnover derives from fellow subsidiary undertakings within the United Kingdom.

3. OPERATING (LOSS)/PROFIT

	1995 £'000	1994 £'000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation	392	392
Other amounts written off fixed assets	9,876	-
Rentals receivable under operating leases	(1,720)	(1,720)
Rentals payable under operating leases:		
Land and buildings	-	173
	<u> </u>	<u> </u>

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


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

No director received any remuneration during the year ended 30 June 1995 (1994 - £nil).

The company had no employees during the year ended 30 June 1995 (1994 - nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1995 £'000	1994 £'000
Bank deposit interest	175	34
Interest receivable from parent company	-	26
	<u>175</u>	<u>60</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1995 £'000	1994 £'000
Interest payable on a loan from parent company	5	-
Bank interest	-	1
	<u>5</u>	<u>1</u>

7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	1995 £'000	1994 £'000
UK corporation tax at 33% based on the (loss)/profit for the year	625	570
Adjustment to prior year	7	-
	<u>632</u>	<u>570</u>

The disproportionate tax charge arises because of expenses which are disallowed for taxation purposes and the non-recognition of a deferred tax asset. There are no amounts of provided or unprovided deferred tax.


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000
Cost	
At 1 July 1994	23,932
Additions	26,200
	<hr/>
At 30 June 1995	50,132
Accumulated depreciation	
At 1 July 1994	1,142
Provision for permanent diminution in value	9,876
Charge for year	392
	<hr/>
At 30 June 1995	11,410
	<hr/>
Net book value	
At 30 June 1995	38,722
	<hr/>
At 1 July 1994	22,790
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Included in tangible fixed assets is a property which is the subject of an operating lease granted to the former owner of the asset, Microsoft Limited, which is a fellow subsidiary undertaking. The current aggregate annual rental receivable under that lease is £1,720,221.

9. DEBTORS

	1995 £'000	1994 £'000
VAT recoverable	4,434	-
Amounts due from fellow subsidiary	-	430
Prepayments and accrued income	164	51
	<hr/>	<hr/>
	4,598	481
	<hr/>	<hr/>

Included in prepayments and accrued income is £51,000 (1994 - £51,000) receivable after more than one year.


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
10. CALLED UP SHARE CAPITAL

	1995 £'000	1994 £'000
Authorised, allotted and fully paid:		
50,000 ordinary shares of £1 each	50	50
23,892,025 redeemable ordinary shares of £1 each	23,892	23,892
	<u>23,942</u>	<u>23,942</u>

The redeemable ordinary shares are redeemable at par by the company on one month's written notice. In all other respects they rank pari passu with the ordinary shares.

11. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital £'000	Profit and loss account £'000	Total 1995 £'000	Total 1994 £'000
At 1 July	23,942	464	24,406	23,765
(Loss)/profit transferred to reserves	-	(9,010)	(9,010)	641
At 30 June	<u>23,942</u>	<u>(8,546)</u>	<u>(15,396)</u>	<u>24,406</u>

12. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1995 £'000	1994 £'000
Operating (loss)/profit	(8,548)	1,152
Depreciation charge	392	392
Other amounts written off fixed assets	9,876	-
Increase in debtors	(4,117)	(54)
Increase in creditors	26,802	-
Net cash inflow from operating activities	<u>24,405</u>	<u>1,490</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
**13. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS AS SHOWN IN THE
BALANCE SHEET**

	1995 £'000	1994 £'000
Balance at 1 July	2,510	1,034
Net cash (outflow)/inflow	(2,501)	1,476
Balance at 30 June	9	2,510

**14. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE
BALANCE SHEET**

	1995 £'000	Change in year £'000	1994 £'000	Change in year £'000	1993 £'000
Cash at bank and in hand	9	(2,501)	2,510	1,476	1,034

15. ANALYSIS IN CHANGES IN FINANCING DURING THE YEAR

	1995 £'000	Loans from group companies 1994 £'000
Balance at 1 July	-	73
Net cash outflow from financing	-	(73)
Balance at 30 June	-	-

16. COMMITMENTS

There was no capital expenditure authorised but not contracted for, or contracted for but not provided for in the financial statements at 30 June 1995 (1994 - £nil).

At 30 June 1995 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £'000
Operating leases which expire:	
Between 2 and 5 years	202

**NOTES TO THE ACCOUNTS****Year ended 30 June 1995****17. ULTIMATE PARENT COMPANY**

The company is a wholly owned subsidiary of 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.