

MICROSOFT PROPERTIES UK LIMITED

Report and Financial Statements

52 weeks ended 2 July 1999



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

REPORT AND FINANCIAL STATEMENTS 1999

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REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Maffei
D Svendsen
R Eshelman

SECRETARY

R B Secretariat Limited

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

Citibank
Citibank House
336 Strand
London
WC2R 1HB

SOLICITORS

Field Seymour Parkes
The Old Coroner's Court
1 London Street
Reading
Berkshire
RG1 4QW

AUDITORS

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

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 52 weeks ended 2 July 1999.

ACTIVITIES

The principal activity of the company is property investment.

REVIEW OF DEVELOPMENTS

During the year the company has continued to operate satisfactorily. Microsoft Campus was sold during the year.

DIVIDENDS

A dividend of £3.9m was paid during the year (1998 – nil)

FUTURE PROSPECTS

The company is soundly placed to continue its current activities.

YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

DIRECTORS

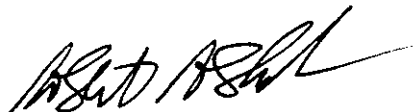
The current directors are listed on page 1. All directors served throughout the year and to date.

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

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors. A resolution has been passed dispensing with the requirement for the auditors to be reappointed at the annual general meeting.

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



R Eshelman
Director

July 7

2000

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;
- 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 PROPERTIES UK LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 10 which have been prepared under the accounting policies set out on page 7.

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 2 July 1999 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE

Chartered Accountants and
Registered Auditors

28 July

2000

PROFIT AND LOSS ACCOUNT
52 weeks ended 2 July 1999

	Note	52 weeks ended 2 July 1999 £'000	53 weeks ended 3 July 1998 £'000
TURNOVER	2	3,528	2,873
GROSS PROFIT		3,528	2,873
Administrative expenses		(2,410)	(1,525)
OPERATING PROFIT	3	1,118	1,348
Profit on disposal of property		25,369	-
Interest receivable and similar income	5	703	28
Interest payable and similar charges	6	(2,041)	(3,217)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		25,149	(1,841)
Tax on profit/(loss) on ordinary activities	7	(2,134)	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		23,015	(1,841)
Dividends paid	8	(3,900)	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	12	19,115	(1,841)

There are no recognised gains and losses for the current and preceding financial periods other than as stated in the profit and loss account. All amounts derive from continuing activities.

BALANCE SHEET

2 July 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	9	8,974	60,404
CURRENT ASSETS			
Debtors	10	24,187	331
Cash at bank and in hand		616	481
		24,803	812
CREDITORS: amounts falling due within one year			
Accruals		1,429	568
Amounts owed to fellow subsidiaries		699	50,669
Taxation and social security		2,785	230
		4,913	51,467
NET CURRENT ASSETS		19,890	(50,655)
TOTAL ASSETS LESS CURRENT LIABILITIES		28,864	9,749
CAPITAL AND RESERVES			
Called up share capital	11	23,942	23,942
Profit and loss account	12	4,922	(14,193)
SHAREHOLDERS' FUNDS		28,864	9,749
Attributable to equity shareholders		4,972	(14,143)
Attributable to non-equity shareholders		23,892	23,892

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

July 7, 2000.


R Eshelman
Director

NOTES TO THE ACCOUNTS**52 weeks ended 2 July 1999****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 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	15 years

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 from the date of full occupancy over the period up to the next rent review under the terms 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 PROFIT

	1999 £'000	1998 £'000
Operating profit is stated after charging:		
Depreciation	1,572	1,373

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

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

No director received any remuneration in respect of their services to the company during the 52 weeks ended 2 July 1999 (53 weeks ended 3 July 1998 – nil).

The company had no employees during the 52 weeks ended 2 July 1999 (53 weeks ended 3 July 1998 – nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1999 £'000	1998 £'000
Interest receivable from parent company	561	-
Bank deposit interest	142	28
	<u>703</u>	<u>28</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £'000	1998 £'000
Interest payable on a loan from fellow subsidiary	<u>2,041</u>	<u>3,217</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
UK corporation tax at 30% (1998 - 31%)	<u>2,134</u>	<u>-</u>

The tax charge is disproportionately low due to the offset of capital losses brought forward against the chargeable gain on the disposal of the property.

There are no provided or unprovided deferred tax liabilities (1998: £nil)

8. DIVIDENDS

	1999 £'000	1998 £'000
Equity dividends paid	<u>3,900</u>	<u>-</u>

NOTES TO THE ACCOUNTS
52 weeks ended 2 July 1999

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000
Cost	
At 3 July 1998	61,777
Additions	273
Disposals	(53,076)
At 3 July 1999	8,974
Depreciation at 3 July 1998	1,373
Charge for the year	1,572
Disposals	(2,945)
At 3 July 1999	-
Net book value	
At 3 July 1999	8,974
At 2 July 1998	60,404

10. DEBTORS

	1999 £'000	1998 £'000
Other debtors	270	-
Corporation tax recoverable	-	55
VAT recoverable	22	-
ACT recoverable	975	-
Due from fellow subsidiary	22,920	276
	24,187	331

All amounts are due within one year.

11. CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised, called up, 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
	23,942	23,942

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.

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

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

	Share capital £'000	Profit and loss account £'000	Total 1999 £'000	Total 1998 £'000
At the beginning of the period	23,942	(14,193)	9,749	11,590
Profit/(loss) for the period	-	19,115	19,115	(1,841)
At the end of the period	23,942	4,922	28,864	9,749

13. ULTIMATE PARENT COMPANY

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.

14. 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.