

Adobe Systems Europe Limited

Report and Financial Statements

30 November 2004

ERNST & YOUNG



Directors

C Csubak
MJ Demo
MA Higgins
PJM Van Beneden

Secretary

Messrs Maclay, Murray & Spens

Auditors

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

Registered office

151 St Vincent Street
Glasgow
G2 5NJ

Directors' report

The directors present their report and financial statements for the year ended 30 November 2004.

Results and dividends

The profit for the year, after taxation, amounted to £727,000. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was the marketing and support of the sale of business communication computer software.

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will continue for the foreseeable future.

Restatement of prior year results and balance sheet

On exercise of share options issued after 6 April 1999, the company is required to pay National Insurance on the difference between the exercise price and the market value of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. In preparing the financial statements for the current year, the company became aware that no payment had been made upon the exercise of such options and neither had a provision been established to reflect this liability. Hence the company has restated its comparative financial statements to correct this omission.

The impact of this restatement is disclosed in Note 1. in Notes to the Financial Statements.

Directors

The directors who served the company during the year were as follows:

C Csubak
MJ Demo
MA Higgins
PJM Van Beneden

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

MA Higgins

Director

30 SEPT 2005



Statement of directors' responsibilities in respect of the financial statements

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 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; and
- 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 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.

Independent auditors' report

to the members of Adobe Systems Europe Limited

We have audited the company's financial statements for the year ended 30 November 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

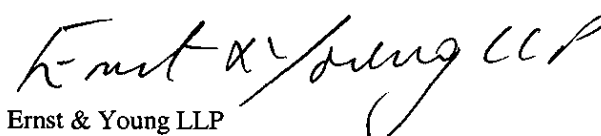
Basis of audit opinion

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 affairs of the company as at 30 November 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Reading

30 September 2005

Profit and loss account
for the year ended 30 November 2004

		2004	2003
			(restated – note 1)
	Notes	£'000	£'000
Turnover – continuing operations	2	24,482	17,582
Administrative expenses		(23,870)	(16,810)
Operating profit – continuing operations	3	612	772
Interest receivable and similar income	6	31	319
Interest payable and similar charges		(2)	(14)
		29	305
Profit on ordinary activities before taxation		641	1,077
Tax on profit on ordinary activities	7	86	(307)
Profit on ordinary activities after taxation		727	770
Dividends:			
ordinary dividends on equity shares	8	–	(164)
Profit retained for the financial year		727	606

Statement of total recognised gains and losses

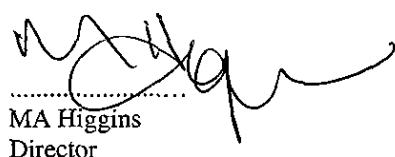
for the year ended 30 November 2004

	2004	2003
	£'000	(restated – note 1) £'000
Profit for the financial year	727	606
Total recognised gains and losses relating to the year	<u>727</u>	<u>606</u>
Prior year adjustment (see note 1)	(74)	
Total gains and losses recognised since the last annual report	<u>653</u>	

Balance sheet at 30 November 2004

		2004	2003
			(restated – note 1)
	Notes	£'000	£'000
Fixed assets			
Tangible assets	9	1,765	561
Investments	10	51	51
		<u>1,816</u>	<u>612</u>
Current assets			
Debtors	11	4,298	2,786
Cash at bank		638	256
		<u>4,936</u>	<u>3,042</u>
Creditors: amounts falling due within one year	12	(4,499)	(2,612)
Net current assets		<u>437</u>	<u>430</u>
Total assets less current liabilities		2,253	1,042
Provisions for liabilities and charges		<u>(645)</u>	<u>(161)</u>
Total assets less current liabilities		<u>1,608</u>	<u>881</u>
Capital and reserves			
Called up share capital	16	30	30
Share premium account	17	44	44
Profit and loss account	17	1,534	807
Equity shareholders' funds	17	<u>1,608</u>	<u>881</u>

ERNST & YOUNG


MA Higgins
Director

30 September 2005

Notes to the financial statements

at 30 November 2004

1. Accounting policies

Basis of preparation and restatement of prior year results

The financial statements have been prepared under the historical cost accounting rule and in accordance with the applicable accounting standards.

On exercise of share options issued after 6 April 1999, the company is required to pay National Insurance on the difference between the exercise price and the market value of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. In preparing the financial statements for the current year, the company became aware that no payment had been made upon the exercise of such options and neither had a provision been established to reflect this liability. Hence the company has restated its comparative financial statements to correct this omission.

As a result of this restatement, shareholders' funds have decreased by £74,000 to £9,700,000 at 1 December 2002 and the retained profit for the year ended 30 November 2003 has been reduced by £87,000 to £606,000. The profit for the current year has been reduced by £484,000.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are initially recorded at cost. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold improvements	life of lease
Fixtures & Fittings	20% per annum
Computer hardware and software	33% per annum

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transaction in foreign currency are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currency are re-translated at the rate of exchange ruling at the balance sheet date. All differences on exchange are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged to income on a straight line basis over the lease term. Any rent free periods are deferred and recognised over the period to the first break clause in the lease.

Notes to the financial statements

at 30 November 2004

1. Accounting policies (continued)

Pension costs

The company operates a define contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Administrative Expenses

Due to the nature of the company's turnover (see Note 2) all operating costs are now included in Administrative Expenses. Previously a portion of the company's costs were classified as cost of sales. This change has not altered the operating profit for the current or previous years.

NIC on Share Options

On exercise of share options issued after 6 April 1999, the company is required to pay National Insurance on the difference between the exercise price and market value of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The company therefore makes a provision for the National Insurance contributions over the vesting period of the options and this provision is remeasured at each period end until the options are exercised.

2. Turnover

Turnover represents expenses reimbursed from Adobe System Software Ireland limited and an element of commission resulting from the marketing and support services provided as part of a commercial agency agreement.

An analysis of turnover by geographical market is given below:

	2004 £'000	2003 £'000
Europe	22,331	15,479
America	2,151	2,103
	<u>24,482</u>	<u>17,582</u>

3. Operating profit

This is stated after charging/(crediting):

	2004 £'000	2003 (restated – note 1) £'000
Auditors' remuneration - audit services	21	15
- non-audit services	5	6
	<u>26</u>	<u>21</u>
Depreciation of owned fixed assets	533	245
	<u>559</u>	<u>266</u>
Operating lease rentals - land and buildings	851	608
- plant and machinery	54	54
Net loss on foreign currency translation	18	13
NIC on stock options	484	87
	<u>1,393</u>	<u>728</u>

Notes to the financial statements

at 30 November 2004

4. Staff costs

	2004 £'000	2003 £'000
Wages and salaries	7,956	6,737
Social security costs	1,047	799
Other pension costs	372	303
	<u>9,375</u>	<u>7,839</u>

The monthly average number of employees during the year was as follows:

	2004 No.	2003 No.
Finance and administration	9	7
Sales and support	116	113
	<u>125</u>	<u>120</u>

5. Directors' emoluments

	2004 £'000	2003 £'000
Emoluments	<u>654</u>	<u>262</u>
Value of company pension contributions to money purchase schemes	<u>32</u>	<u>38</u>

	2004 No.	2003 No.
Members of defined benefit pension schemes	<u>2</u>	<u>1</u>

The amounts in respect of the highest paid director are as follows:

	2004 £'000	2003 £'000
Emoluments	<u>341</u>	<u>135</u>

During the year, 2 directors exercised share options in the parent company.

The directors emoluments for C Csubak and MJ Demo have been borne by the ultimate parent company. These directors' services to the company do not occupy a significant amount of their time and as such these directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 30 November 2004 and 2003.

6. Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest payable	21	8
Short term investments	-	311
Income from fellow group companies	10	-
	<u>31</u>	<u>319</u>

Notes to the financial statements

at 30 November 2004

7. Taxation on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004 £'000	2003 £'000
<i>Current tax:</i>		
UK corporation tax	(375)	299
Total current tax (note 8(b))	<u>(375)</u>	<u>299</u>

Deferred tax:

Origination and reversal of timing differences	289	8
Tax on profit on ordinary activities	<u>(86)</u>	<u>307</u>

(b) Factors affecting current tax charge

The differences are reconciled below:

	2004 £'000	2003 £'000 <i>Restated – note 1</i>
Profit on ordinary activities before taxation	<u>641</u>	<u>1,077</u>
Profit on ordinary activities multiplied by rate of tax of 30% (2003 – 30%)	192	323
Expenses not deductible for tax purposes	116	35
Capital allowances in excess of depreciation	(68)	(7)
Other timing differences	(37)	(67)
Unrelieved tax losses carried forward	197	-
Group relief (surrendered/(received) for nil payment	-	(11)
Schedule 23 FA 2003 deduction	(794)	-
Other	19	26
Total current tax (note 9(a))	<u>(375)</u>	<u>299</u>

(c) Deferred tax

	2004 £'000	2003 £'000
Deferred taxation recognised in the accounts is as follows:		
Capital allowances in advance of depreciation	-	252
Other timing differences	-	37
Deferred tax asset	<u>-</u>	<u>289</u>

Deferred taxation not recognised in the accounts is as follows:

Capital allowances in advance of depreciation	184	-
Tax losses	197	-
Unrecognised deferred tax asset	<u>381</u>	<u>-</u>

Notes to the financial statements

at 30 November 2004

7. Taxation on ordinary activities (continued)

Deferred tax asset	£'000
At 1 December 2003	289
Profit and loss account	(289)
At 30 November 2004	-

8. Dividends

No dividend has been recommended for the year ended 30 November 2004. (2003: £164,000)

9. Tangible fixed assets

	<i>Leasehold Improvements £'000</i>	<i>Fixtures, fittings & equipment £'000</i>	<i>Computer hardware & software £'000</i>	<i>Assets under construction £'000</i>	<i>Total £'000</i>
Cost:					
At 1 December 2003	1,120	658	1,242	90	3,110
Additions	961	441	335	-	1,737
Transfers	90	-	-	(90)	-
At 30 November 2004	2,171	1,099	1,577	-	4,847
Depreciation:					
At 1 December 2003	869	632	1,048	-	2,549
Provided during the year	259	98	176	-	533
At 30 November 2004	1,128	730	1,224	-	3,082
Net book value:					
At 30 November 2004	1,043	369	353	-	1,765
At 1 December 2003	250	26	194	90	561

10. Investments

	<i>Investment in subsidiary undertaking £'000</i>
Cost:	
At 1 December 2003 and 30 November 2004	
Investment in subsidiary undertaking	50
Investment in fellow subsidiary undertaking	1
	51

The company owns 100% of the ordinary share capital of Adobe Systems Direct Limited, a company registered in Scotland and 5% of the ordinary share capital of Adobe Systems Italy, a company incorporated in Italy. Group accounts are not prepared as in accordance with Section 229 Companies Act 1985, Adobe Systems Direct Limited is not material for the purpose of giving a true and fair view.

Notes to the financial statements

at 30 November 2004

11. Debtors

	2004 £'000	2003 £'000
Amounts owed by group undertakings	3,429	1,943
Other debtors	139	289
Prepayments and accrued income	358	265
Corporation tax	372	-
Deferred taxation (note 7)	-	289
	<u>4,298</u>	<u>2,786</u>

12. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Trade creditors	255	231
Amounts owed to group undertakings	264	264
Corporation tax	-	3
Other taxation and social security	492	308
Other creditors	3,488	1,806
	<u>4,499</u>	<u>2,612</u>

13. Provisions for liabilities and charges

	Provision for NIC on stock options £'000
At 1 December 2003 (restated – note 1)	161
Profit and loss charge for the year	484
At 30 November 2004	<u>645</u>

Provision for NIC on Stock Options

On exercise of share options issued after 6 April 1999, the company is required to pay National Insurance on the difference between the exercise price and market value of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The amount of National Insurance payable depends on the number of employees who remain with the company and exercise their options, the market price of the parent undertaking's ordinary shares at the time of exercise and the prevailing National Insurance rates at the time. A provision of £645,000 (2003: £161,000) has been made taking into account the above factors.

Notes to the financial statements

at 30 November 2004

14. Commitments under operating leases

At 30 November 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	2004		2003	
	<i>Land and buildings £'000</i>	<i>Other £'000</i>	<i>Land and buildings £'000</i>	<i>Other £'000</i>
Operating leases which expire:				
Within one year	–	36	–	–
In two to five years	–	19	–	55
In over five years	851	–	851	–
	<u>851</u>	<u>55</u>	<u>851</u>	<u>55</u>

15. Related party transactions

The company as a wholly own subsidiary has taken advantage of the exemption in FRS8 from disclosing transactions with members or investees of the Adobe Systems Inc group.

16. Share capital

	2004		2003	
	<i>£'000</i>		<i>£'000</i>	
Ordinary shares of £1 each		<u>500</u>		<u>500</u>
	<i>Allotted, called up and fully paid</i>			
	<i>No.</i>	<i>2004 £'000</i>	<i>No.</i>	<i>2003 £'000</i>
Ordinary shares of £1 each	30,000	<u>30</u>	30,000	<u>30</u>

17. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital £'000</i>	<i>Share premium account £'000</i>	<i>Profit and loss account (restated) £'000</i>	<i>Total share- holders' funds (restated) £'000</i>
At 1 December 2002 as previously reported	355	5,039	4,380	9,774
Prior year adjustment (note 1)	–	–	(74)	(74)
At 1 December 2002 as restated	355	5,039	4,306	9,700
Purchase of own shares	(325)	(4,995)	(4,105)	(9,425)
Profit for the year restated (note 1)	–	–	770	770
Dividends	–	–	(164)	(164)
At 30 November 2003 as restated	30	44	807	881
Profit for the year	–	–	727	727
At 30 November 2004	<u>30</u>	<u>44</u>	<u>1,534</u>	<u>1,608</u>

Notes to the financial statements

at 30 November 2004

18. Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Adobe Systems Benelux, a company incorporated in the Netherlands.

The ultimate parent undertaking and controlling party of Adobe Systems Europe Limited is Adobe Systems Inc., a company incorporated in the USA.

Copies of the Adobe Systems Inc group financial statements can be obtained from the Investor Relations Department, Adobe Systems Inc., 345 Park Avenue, San Jose, California, USA.