

Adobe Systems Europe Limited

Directors' report and financial statements

for the year ended 28 November 1997

Registered number 101089

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Directors' report and financial statements

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Directors and advisors

Directors

DJ Gray
ACK Boyle
Dr CM Geschke (US)
MA Munro
DB Pratt (US)
Dr JE Warnock (US)
B Davoine

Secretary

Messrs Maclay, Murray & Spens
151 St Vincent Street
Glasgow
G2 5NJ

Auditors

KPMG
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registered office

151 St Vincent Street
Glasgow
G2 5NJ

Directors' report

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 28 November 1997.

Principal activities

The principal activities of the company are the marketing, distribution, training and support of business communication computer software.

Business review and future developments

The further improvement in the business is reflected in the year's results. The directors look forward to continuing success.

Results and dividends

During the year the company paid dividends of £16,824,000. The retained profit for the year amounted to £1,147,000 which has been transferred to reserves.

Directors and directors' interests

The current directors who are noted on page 1 were in office throughout the year.

None of the directors who held office at the year end had any disclosable interest in the shares of the company. The interests of the directors in the common stock units of the parent company, Adobe Systems Inc., were as follows:

	At 28 November 1997	At 30 November 1996
DJ Gray	2,000	2,000
ACK Boyle	-	-
Dr CM Geschke	-	-
MA Munro	-	-
DB Pratt	-	-
Dr JE Warnock	-	-
B Davoine	-	-

Directors' report *(continued)*

Directors and directors' interests *(continued)*

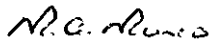
During the year the following options in the parent company's common stock units of \$0.001 each were granted and exercised by the directors:

	Granted	Exercised
DJ Gray	59,650	55,000
ACK Boyle	3,200	-
Dr CM Geschke	-	-
MA Munro	3,200	1,900
DB Pratt	-	-
Dr JE Warnock	-	-
B Davoine	3,200	-

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



MA Munro
Director

28 July 1998

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 and group and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Report of the auditors to the members of Adobe Systems Europe Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 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 financial 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 group'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 and the group as at 28 November 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

28 July 1998

Consolidated profit and loss account
for the year ended 28 November 1997

	<i>Note</i>	Year ended 28 November 1997 £000	Year ended 29 November 1996 £000
Turnover	2	109,420	83,212
Cost of sales		46,022	39,524
		<hr/>	<hr/>
Gross profit		63,398	43,688
Distribution costs		(29,133)	(29,197)
Administrative expenses		(8,975)	(6,680)
		<hr/>	<hr/>
Operating profit	3	25,290	7,811
Exceptional item - restructuring costs		-	(838)
Interest receivable and similar income	4	1,234	935
Interest payable and similar charges	5	(135)	(947)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		26,389	6,961
Tax on profit on ordinary activities	8	(8,418)	(1,855)
		<hr/>	<hr/>
Profit on ordinary activities after tax		17,971	5,106
Interim dividend paid on equity shares		(16,824)	-
		<hr/>	<hr/>
Retained profit for the financial year	17	1,147	5,106
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains or losses other than the profit for the year and the preceding financial year.

Consolidated balance sheet
at 28 November 1997

	<i>Note</i>	1997 £000	1996 £000
Fixed assets			
Intangible assets	9	-	1,665
Tangible assets	10	4,227	3,601
Investments	11	1	1
		<hr/> 4,228	<hr/> 5,267
Current assets			
Stocks	12	1,471	1,657
Debtors	13	20,524	15,351
Cash at bank and in hand		17,058	16,658
		<hr/> 39,053	<hr/> 33,666
Creditors: amounts falling due within one year	14	(29,819)	(26,451)
		<hr/>	<hr/>
Net current assets		9,234	7,215
		<hr/>	<hr/>
Total assets less current liabilities		13,462	12,482
Provisions for liabilities and charges	15	(2,096)	(2,263)
		<hr/>	<hr/>
Net assets		11,366	10,219
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	16	355	355
Share premium		5,039	5,039
Profit and loss account	17	5,972	4,825
		<hr/>	<hr/>
Equity shareholders' funds		11,366	10,219
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 28 July 1998 and were signed on its behalf by:

M. A. Munro
MA Munro
Director

Balance sheet
at 28 November 1997

	<i>Note</i>	1997 £000	1996 £000
Fixed assets			
Intangible assets	9	-	1,665
Tangible assets	10	4,227	3,601
Investments	11	51	51
		<hr/>	<hr/>
		4,278	5,317
		<hr/>	<hr/>
Current assets			
Stocks	12	1,084	1,192
Debtors	13	19,556	15,334
Cash at bank and in hand		16,731	15,930
		<hr/>	<hr/>
		37,371	32,456
		<hr/>	<hr/>
Creditors: amounts falling due within one year	14	(28,862)	(30,469)
		<hr/>	<hr/>
Net current assets		8,509	1,987
		<hr/>	<hr/>
Total assets less current liabilities		12,787	7,304
		<hr/>	<hr/>
Provisions for liabilities and charges	15	(2,096)	(2,263)
		<hr/>	<hr/>
Net assets		10,691	5,041
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	16	355	355
Share premium		5,039	5,039
Profit and loss account	17	5,297	(353)
		<hr/>	<hr/>
Equity shareholders' funds		10,691	5,041
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 28 July 1998 and were signed on its behalf by:


MA Munro
Director

Group cash flow statement
for the year ended 28 November 1997

	Year ended 28 November 1997 Note £000	Year ended 29 November 1996 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	25,290	7,811
Depreciation	725	483
Amortisation	6,208	3,564
Loss on disposal of intangible fixed assets	-	28
Gain on disposal of tangible fixed assets	(32)	(15)
Movement on restructuring provision	(167)	(328)
Exchange losses/(gains)	18	(586)
Decrease/(increase) in stocks	186	(110)
Increase in debtors	(4,253)	(445)
Decrease in creditors	(1,162)	(289)
	<hr/>	<hr/>
Net cash inflow from operating activities	26,813	10,113
	<hr/>	<hr/>

Cash flow statement

Cash inflow from operating activities		26,813	10,113
Returns on investments and servicing of finance	20	1,081	573
Taxation		(4,808)	(2,327)
Capital expenditure	20	(5,862)	(3,890)
Equity dividends paid		(16,824)	-
		<hr/>	<hr/>
Increase in cash in the year		400	4,469
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year	21	400	4,469
Net funds at the start of the year		16,658	12,189
		<hr/>	<hr/>
Net funds at the end of the year		17,058	16,658
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

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

The group financial statements consolidate the financial statements of Adobe Systems Europe Limited and its subsidiary undertaking, Adobe Systems Direct Limited. Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

As the company is a wholly owned subsidiary of Adobe Systems Inc., it has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Adobe Systems Inc., within which this company is included, can be obtained from the address given in note 21.

Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of VAT and trade discounts. Provision is made against revenue for estimated future returns and exchanges.

Localisation of software

Costs directly incurred in the translation of and enhancement to existing software products are capitalised and amortised over the software's estimated economic life.

Depreciation

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of each asset over its expected useful life as follows:

Freehold buildings	2.86% per annum
Computer hardware and software	33% per annum
Furniture, fittings and equipment	25% per annum
Motor vehicles	25% per annum

Freehold land is not depreciated.

Stocks

Stocks are stated at the lower of cost (first-in, first-out basis) or market (net realisable) value.

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the foreseeable future calculated at the rate at which it is estimated that tax will be payable.

Foreign currencies

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

Leasing

Rentals payable under operating leases are charged to income on a straight line basis over the lease term.

Pensions

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

2 Turnover

Turnover is attributable to the marketing, distribution, training and support of business communication computer software. An analysis of turnover by geographical market is given below:

	1997 £000	1996 £000
United Kingdom	18,687	12,465
Elsewhere within the EU	76,512	60,759
Rest of the world	14,221	9,988
	<hr/>	<hr/>
	109,420	83,212
	<hr/> <hr/>	<hr/> <hr/>

3 Operating profit

Operating profit is stated after charging:

Depreciation	725	483
Amortisation	6,208	3,564
Operating lease rentals	236	215
- plant and machinery	236	215
- land and buildings	280	106
Auditors' remuneration	35	35
- company audit services	35	35
- group audit services	40	40
- non-audit services	83	121
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

4 Interest receivable and similar income

	1997 £000	1996 £000
Interest receivable	1,216	935
Exchange gains	18	-
	<hr/> 1,234 <hr/>	<hr/> 935 <hr/>

5 Interest payable and similar charges

Interest payable to fellow subsidiary undertakings	135	362
Exchange losses	-	585
	<hr/> 135 <hr/>	<hr/> 947 <hr/>

6 Staff costs

The average number of employees during the year was:

	Number	Number
Finance and administration	41	36
Sales and support	99	64
	<hr/> 140 <hr/>	<hr/> 100 <hr/>

Staff costs during the year:

	£000	£000
Wages and salaries	5,988	3,831
Social security costs	429	294
Pension costs	183	105
	<hr/> 6,600 <hr/>	<hr/> 4,230 <hr/>

Notes (continued)

7 Directors' remuneration

	1997 £000	1996 £000
Directors' emoluments	422	251
Company contributions to money purchase schemes	21	17
Amounts payable to third parties in respect of directors' services	257	271
	<hr/> 700	<hr/> 539
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the highest paid director were £185,000 (1996: £280,000) and company pension contributions of £7,000 (1996: £9,600) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to 3 (1996: 3) directors under money purchase schemes.

Two directors exercised share options during the year.

8 Tax on profit on ordinary activities

	£000	£000
Corporation tax at 31% (1996: 33%) based on the profit for the year	9,224	1,849
Prior year (over)/underprovision	(806)	6
	<hr/> 8,418	<hr/> 1,855
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Intangible fixed assets
Group and company

	Software localisation costs £000
<i>Cost</i>	
At 29 November 1996	5,788
Additions	4,543
Written off	(3,484)
	<hr/>
At 28 November 1997	6,847
	<hr/>
<i>Amortisation</i>	
At 29 November 1996	4,123
Provided in the year	6,208
Written off	(3,484)
	<hr/>
At 28 November 1997	6,847
	<hr/>
<i>Net book value</i>	
At 28 November 1997	-
	<hr/> <hr/>
At 29 November 1996	1,665
	<hr/> <hr/>

Notes (continued)

10	Tangible assets					
	Group and company					
		Freehold land and buildings £000	Computer hardware & software £000	Furniture fittings & equipment £000	Motor vehicles £000	Total £000
	<i>Cost</i>					
	At 29 November 1996	3,453	1,144	156	207	4,960
	Additions	74	738	513	65	1,390
	Disposals	(88)	(117)	(8)	(175)	(388)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 28 November 1997	3,439	1,765	661	97	5,962
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<i>Depreciation</i>					
	At 29 November 1996	495	618	101	145	1,359
	Provided in the year	83	480	121	41	725
	Disposals	(88)	(108)	(8)	(145)	(348)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 28 November 1997	490	990	214	41	1,735
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<i>Net book value</i>					
	At 28 November 1997	2,949	775	447	56	4,227
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 29 November 1996	2,958	526	55	62	3,601
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Freehold land included in tangible assets amounted to £500,000 (1996: £500,000).

11	Fixed asset investments		
		1997	1996
		£000	£000
	Group		
	Investment in fellow subsidiary undertaking	1	1
		<hr/>	<hr/>
	Company		
	Investment in subsidiary undertaking	50	50
	Investment in fellow subsidiary undertaking	1	1
		<hr/>	<hr/>
		51	51
		<hr/>	<hr/>

Notes (continued)

11 Fixed asset investments (continued)

The company owns 100% of the ordinary share capital of Adobe Systems Direct Limited, a company registered in Scotland. The company owns 5% of the ordinary share capital of Adobe Systems Italia, a company incorporated in Italy. The activities of these companies are similar to the parent.

12 Stocks

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Raw materials and consumables	233	295	233	295
Finished goods	1,238	1,362	851	897
	<hr/>	<hr/>	<hr/>	<hr/>
	1,471	1,657	1,084	1,192
	<hr/>	<hr/>	<hr/>	<hr/>

Included in stock is £351,000 (1996: £364,000) of finished goods held on consignment by the subsidiary undertaking.

13 Debtors

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade debtors	16,441	11,065	16,415	11,048
Amounts owed by parent and fellow subsidiary undertakings	1,960	2,681	1,960	2,681
Prepayments	1,083	1,605	1,083	1,605
Other debtors	120	-	98	-
ACT recoverable	920	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	20,524	15,351	19,556	15,334
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

14 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade creditors	5,710	3,755	5,363	3,129
Amounts due to parent and fellow subsidiary undertakings	7,622	10,573	7,622	10,573
Amount due to subsidiary undertaking	-	-	346	5,336
Corporation tax	5,191	2,836	4,735	2,171
Other taxes and social security costs	218	110	218	110
Other creditors	-	151	-	125
Accruals	8,903	9,026	8,903	9,025
ACT payable	2,175	-	1,675	-
	<u>29,819</u>	<u>26,451</u>	<u>28,862</u>	<u>30,469</u>

15 Provisions for liabilities and charges
Group and company

	Restructuring
	£000
At beginning of year	2,263
Utilised in year	(167)
	<u>2,096</u>

16 Share capital

	1997	1996
	£000	£000
<i>Equity</i>		
<i>Authorised</i>		
Ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	355	355
	<u>355</u>	<u>355</u>

Notes (continued)

17	Profit and loss account	Group £000	Company £000
	At beginning of year	4,825	(353)
	Retained profit for the year	1,147	5,650
		<hr/>	<hr/>
	At end of year	5,972	5,297
		<hr/> <hr/>	<hr/> <hr/>

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Profit for the financial year	17,971	5,106	22,474	3,730
Dividends	(16,824)	-	(16,824)	-
Opening shareholders' funds	(10,219)	5,113	5,041	1,311
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	11,366	10,219	10,691	5,041
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

19 Operating lease commitments
Group and company

The commitments under non-cancellable operating leases are as follows:

	1997		1996	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	32	-	13
In the second to fifth years inclusive	-	112	-	137
Over five years	287	-	225	-
	<hr/>	<hr/>	<hr/>	<hr/>
	287	144	225	150
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

20 Analysis of cash flows

	1997 £000	1996 £000
Returns on investments and servicing of finance		
Interest received	1,217	935
Interest paid	(136)	(362)
	<hr/> 1,081	<hr/> 573
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure		
Purchase of tangible fixed assets	(1,390)	(375)
Purchase of intangible fixed assets	(4,543)	(3,351)
Sale of tangible fixed assets	71	16
	<hr/> (5,862)	<hr/> (3,890)
	<hr/> <hr/>	<hr/> <hr/>

20 Analysis of net funds

At beginning of year	16,658	12,189
Net cash inflow	400	4,469
	<hr/>	<hr/>
At end of year	17,058	16,658
	<hr/> <hr/>	<hr/> <hr/>

21 Parent undertaking

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

Copies of the group financial statements can be obtained from the Investor Relations Department, Adobe Systems Inc., 345 Park Avenue, San Jose, California 95110, USA.