

**Deloitte &  
Touche**

Deloitte Touche  
Tohmatsu  
International



Company Registration No. 1624297

## **MICROSOFT LIMITED**

### **Report and Financial Statements**

**28 June 1996**

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





**REPORT AND FINANCIAL STATEMENTS 1996**

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**REPORT AND FINANCIAL STATEMENTS 1996**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

M W Brown  
D Curtis  
D Svendsen

**SECRETARY**

G C S C Francis

**REGISTERED OFFICE**

Microsoft Place  
Winnersh  
Wokingham  
Berkshire  
RG11 5TP

**BANKERS**

National Westminster Bank Plc  
12 The High Street  
Windsor  
Berkshire  
SL4 1LQ

Citibank, N.A.  
PO Box 449  
Riverdale House  
Molesworth Street  
London  
SE13 7EU

**SOLICITORS**

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

Linklaters & Paines  
Barrington House  
59-67 Gresham Street  
London  
EC2V 7JA

Denton Hall  
5 Chancery Lane  
Cliffords Inn  
London  
EC4A 1BU

**AUDITORS**

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

**TAX 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 28 June 1996.

### **ACTIVITIES**

Microsoft Limited, a subsidiary of Microsoft Corporation, continues to market, distribute and support systems and applications software for business, professional and home use, including operating systems, network products, languages and applications as well as books, hardware and CD-ROM products for the microcomputer market place.

The principal area of business activity is the United Kingdom.

### **REVIEW OF DEVELOPMENTS**

The profit and loss account is shown on page 6.

### **DIVIDENDS AND TRANSFERS TO RESERVES**

A dividend of £22,200,000 was paid from reserves during the period (1995 - £nil).

The retained profit for the period of £350,000 (1995 - £13,186,000) has been transferred to reserves.

### **FUTURE PROSPECTS**

The directors are looking forward to another year of strong growth.

### **FIXED ASSETS**

Movements in fixed assets are given in note 9 to the accounts.

### **DIRECTORS**

The current directors are set out on page 1. All directors served throughout the period.

None of the directors had any interest in the shares of the company or any other group company within the UK at any point during the period.

### **CHARITABLE DONATIONS**

During the period, the company made donations for charitable purposes which amounted to £200,000 (1995 - £200,812). No political donations were made.

## **DIRECTORS' REPORT**

### **EMPLOYEE INVOLVEMENT**

The directors ensure that the employees are informed of any significant matters affecting them as employees. Employees are encouraged to discuss with management factors affecting the company about which they are concerned.

The involvement of employees in business performance is encouraged through an employee share scheme. This scheme enables employees to purchase shares in Microsoft Corporation, the ultimate parent company, at 85% of their market value.

Suggestions from employees aimed at improving the company's performance are welcomed.

### **EMPLOYMENT OF DISABLED PERSONS**

The company recognises its social and statutory duty to employ disabled persons. It is the company's policy to give full and fair consideration to applications for employment from disabled persons.

The company's general policy on training and promotion is to fit the qualifications and potential of each member of its staff to the appropriate job and career in the business. This policy is applied to disabled persons in the same way as to other staff.

Where employees become disabled, the company endeavours to continue to employ such people, retraining them where appropriate, provided there are duties which they can perform considering the particular handicap or disability.

### **AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them 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

*22nd April* 1997

## **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 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.



## Chartered Accountants

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

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International + 44 1344 54445  
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## MICROSOFT LIMITED

### AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 15 which have been prepared under the accounting policies set out on page 10.

#### 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 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 28 June 1996 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and  
Registered Auditors

22 April 1997

**PROFIT AND LOSS ACCOUNT**  
**52 weeks ended 28 June 1996**

	Note	1996 £'000	1995 £'000
<b>TURNOVER</b>	2	134,307	83,380
Cost of sales		(9,716)	(3,423)
<b>GROSS PROFIT</b>		124,591	79,957
Distribution costs		(27,783)	(20,340)
Administrative expenses		(64,049)	(46,752)
Other operating income		2,551	4,761
<b>OPERATING PROFIT</b>	3	35,310	17,626
Interest receivable and similar income	5	1,582	1,564
Interest payable and similar charges	6	(19)	(2)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		36,873	19,188
Tax on profit on ordinary activities	7	(13,030)	(6,002)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		23,843	13,186
Dividends paid	8	(22,200)	-
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR, TRANSFERRED TO RESERVES</b>		1,643	13,186
Profit and loss account brought forward		29,565	16,379
Profit and loss account carried forward		31,208	29,565

All amounts 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**  
**28 June 1996**

	Note	1996 £'000	1995 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	10,739	11,020
<b>CURRENT ASSETS</b>			
Stocks	10	-	112
Debtors	11	40,941	49,346
Cash at bank and in hand		11,756	1,967
		<u>52,697</u>	<u>51,425</u>
<b>CREDITORS: amounts falling due within one year</b>			
Trade creditors		6,127	7,636
Amounts owed to group undertakings:			
Parent company		14	790
Fellow subsidiary undertakings		337	8,859
Other creditors including taxation and social security	12	15,719	8,310
Accruals and deferred income		10,016	7,210
		<u>32,213</u>	<u>32,805</u>
<b>NET CURRENT ASSETS</b>		<u>20,484</u>	<u>18,620</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>31,223</u>	<u>29,640</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	13	-	(60)
		<u>31,223</u>	<u>29,580</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	15	15
Profit and loss account		31,208	29,565
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	15	<u>31,223</u>	<u>29,580</u>

These financial statements were approved by the Board of Directors on 22 April 1997

Signed on behalf of the Board of Directors



D Svendsen  
Director


**CASH FLOW STATEMENT**  
 52 weeks ended 28 June 1996

	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	1	39,833	3,394
<b>Returns on investment and servicing of finance</b>			
Interest received		1,582	805
Interest paid		(19)	(2)
Dividends paid		(22,200)	-
		<u>          </u>	<u>          </u>
Net cash (outflow)/inflow from returns on investments and servicing of finance		(20,637)	803
<b>Taxation</b>			
UK corporation tax paid		(4,673)	(6,655)
		<u>          </u>	<u>          </u>
Net tax paid		(4,673)	(6,655)
<b>Investing activities</b>			
Payments to acquire tangible fixed assets		(4,757)	(4,364)
Receipts from sales of tangible fixed assets		23	218
		<u>          </u>	<u>          </u>
Net cash outflow from investing activities		(4,734)	(4,146)
<b>Increase/(decrease) in cash and cash equivalents</b>	2	<u>          </u> 9,789	<u>          </u> (6,604)

**NOTES TO THE CASH FLOW STATEMENT**  
**52 weeks ended 28 June 1996**

**1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	1996 £'000	1995 £'000
Operating profit	35,310	17,626
Depreciation charges	4,871	5,014
Loss on sale of tangible fixed assets	144	74
Decrease in stocks	112	718
Decrease/(increase) in debtors	8,405	(22,328)
(Decrease)/increase in creditors	(9,009)	2,290
Net cash inflow from operating activities	<u>39,833</u>	<u>3,394</u>

**2. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR**

	1996 £'000	1995 £'000
Balance at start of financial year	1,967	8,571
Net cash inflow/(outflow)	<u>9,789</u>	<u>(6,604)</u>
Balance at end of financial year	<u>11,756</u>	<u>1,967</u>

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

	1996 £'000	Change in year £'000	1995 £'000	Change in year £'000	1994 £'000
Cash at bank and in hand	11,756	9,789	1,967	(7,716)	9,683
Bank loans and overdrafts	-	-	-	1,112	(1,112)
	<u>11,756</u>	<u>9,789</u>	<u>1,967</u>	<u>(6,604)</u>	<u>8,571</u>

**NOTES TO THE ACCOUNTS**  
**52 weeks ended 28 June 1996**

**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.

**Fixed assets**

Fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over their expected useful lives at the following rates:

Office equipment, furniture and fittings	20% per annum
Computer and technical equipment	33% per annum
Leasehold improvements	5% to 25% per annum

**Financial year**

The financial year is the fifty two or fifty three week period ending on the Friday closest to 30 June.

**Leases**

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

**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 the rates at which it is estimated that tax will arise.

**Foreign currencies**

Transactions in foreign currencies during the year are recorded at the average rate ruling for the month of the transaction.

Monetary 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.

**Stocks**

Stocks are stated in the balance sheet at the lower of cost and net realisable value. Cost is the purchase price of the goods and is calculated using the weighted average cost basis. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

**Provision for customer rebates**

The provision for customer rebates represents the directors' best estimate of the future liabilities which will crystallise in respect of rebate agreements.

## NOTES TO THE ACCOUNTS

52 weeks ended 28 June 1996

## 2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the year. The turnover and pre-tax profit, all of which arises in the United Kingdom, is attributable to one activity, the marketing, distribution and support of systems and applications software. It includes commission receivable by the company under agreements with a fellow subsidiary.

	1996 £'000	1995 £'000
Sales to third parties	17,865	14,307
Sales within the group	116,442	69,073
	<u>134,307</u>	<u>83,380</u>

### 3. OPERATING PROFIT

	1996 £'000	1995 £'000
<b>Operating profit is stated after charging:</b>		
Rentals under operating leases		
Hire of plant and machinery	995	1,060
Other operating leases		
- with fellow subsidiary	1,497	1,720
- other	1,389	929
Auditors' remuneration		
- audit	39	37
- other services	7	7
Depreciation - owned assets	4,871	5,014
Loss on disposal of fixed assets	144	74
Foreign currency losses	85	106

#### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1996 No.	1995 No.
<b>Average number of persons employed:</b>		
Sales and distribution	623	542
Administration	52	52
	<hr/> 675	<hr/> 594



**NOTES TO THE ACCOUNTS**

52 weeks ended 28 June 1996

**4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

	1996 £'000	1995 £'000
<b>Staff costs (including directors):</b>		
Wages and salaries	21,778	17,410
Social security costs	2,166	1,734
	<u>23,944</u>	<u>19,144</u>

Only one director received remuneration during the year (and the prior year), and this was as follows:

	1996 £'000	1995 £'000
Other emoluments	<u>152</u>	<u>146</u>

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	1996 £'000	1995 £'000
Interest receivable from parent company	868	759
Bank deposit interest receivable	714	805
	<u>1,582</u>	<u>1,564</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	1996 £'000	1995 £'000
Bank loans and overdrafts repayable within five years	<u>19</u>	<u>2</u>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	1996 £'000	1995 £'000
UK corporation tax at 33% (1995 - 33%) based on the profit for the year	12,742	6,562
Adjustment to prior years	288	(560)
	<u>13,030</u>	<u>6,002</u>

There is no provided or unprovided deferred tax liability (1995: nil).


**NOTES TO THE ACCOUNTS**

52 weeks ended 28 June 1996

**8. DIVIDENDS**

	1996 £'000	1995 £'000
Interim paid - £1,480 per ordinary share (1995: nil)	22,200	-

**9. TANGIBLE FIXED ASSETS**

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 1 July 1995	6,070	11,969	7,494	25,533
Additions	598	3,325	834	4,757
Disposals	(742)	(1,142)	-	(1,884)
At 28 June 1996	5,926	14,152	8,328	28,406
Accumulated depreciation				
At 1 July 1995	2,934	8,807	2,772	14,513
Charge for the year	1,284	2,389	1,198	4,871
Disposals	(661)	(1,056)	-	(1,717)
At 28 June 1996	3,557	10,140	3,970	17,667
Net book value				
At 28 June 1996	2,369	4,012	4,358	10,739
At 30 June 1995	3,136	3,162	4,722	11,020

**10. STOCKS**

	1996 £'000	1995 £'000
Finished goods	-	112


**NOTES TO THE ACCOUNTS**
**52 weeks ended 28 June 1996**
**11. DEBTORS**

	1996 £'000	1995 £'000
Trade debtors	3,669	3,001
Amounts owed by group undertakings:		
- parent company	9,903	24,182
- fellow subsidiary undertakings	7,543	14,896
Other debtors	6,788	1,930
Prepayments and accrued income	13,038	5,337
	<u>40,941</u>	<u>49,346</u>

Prepayments and accrued income include £179,392 (1995 - £256,000) which is due after more than one year. All other debts are due within one year.

**12. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

	1996 £'000	1995 £'000
<b>This heading includes:</b>		
Taxation and social security	<u>14,278</u>	<u>7,015</u>

**13. PROVISIONS FOR LIABILITIES AND CHARGES**

	£'000
Balance at 1 July 1995	60
Applied in year	<u>(60)</u>
Balance at 28 June 1996	<u>-</u>

A provision was set up in 1995 for legal costs to be incurred regarding a dispute with a contractor. The dispute was settled in the year, and the provision was applied against the associated costs.

**14. CALLED UP SHARE CAPITAL**

	1996 £'000	1995 £'000
Authorised, allotted and fully paid 15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>



**NOTES TO THE ACCOUNTS**  
**52 weeks ended 28 June 1996**

**15. MOVEMENTS ON SHAREHOLDERS' FUNDS**

	1996 £'000	1995 £'000
Profit for the financial year	23,843	13,186
Dividends paid	(22,200)	-
Net addition to shareholders' funds	1,643	13,186
Opening shareholders' funds	29,580	16,394
Closing shareholders' funds	31,223	29,580

**16. COMMITMENTS AND CONTINGENT LIABILITIES**

At 28 June 1996 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 1996 £'000	Other 1996 £'000	Land and buildings 1995 £'000	Other 1995 £'000
Operating leases which expire:				
Within 1 year	128	1	26	576
Between 2 and 5 years inclusive	2,555	-	788	152
Over 5 years	-	-	1,720	-
	2,683	1	2,534	728

At 28 June 1996, capital expenditure of £20,000 (1995 - £104,000) had been authorised and contracted for but not provided for in the financial statements.

**17. ULTIMATE PARENT COMPANY**

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

Copies of Microsoft Corporation's annual report are available upon written request from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington 98052-6399, USA.