

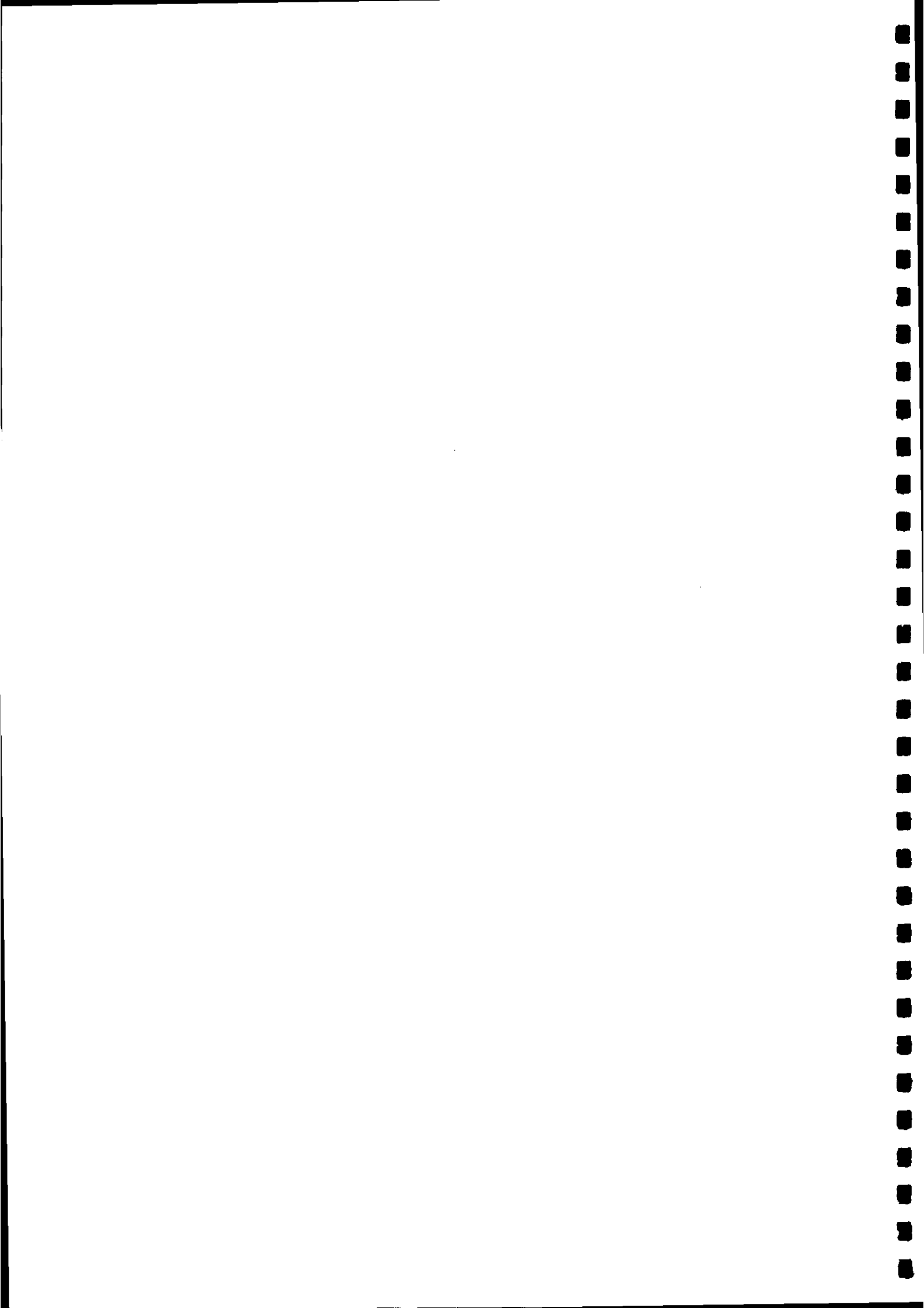
MICROSOFT LIMITED

Report and Financial Statements

52 weeks ended 2 July 1999

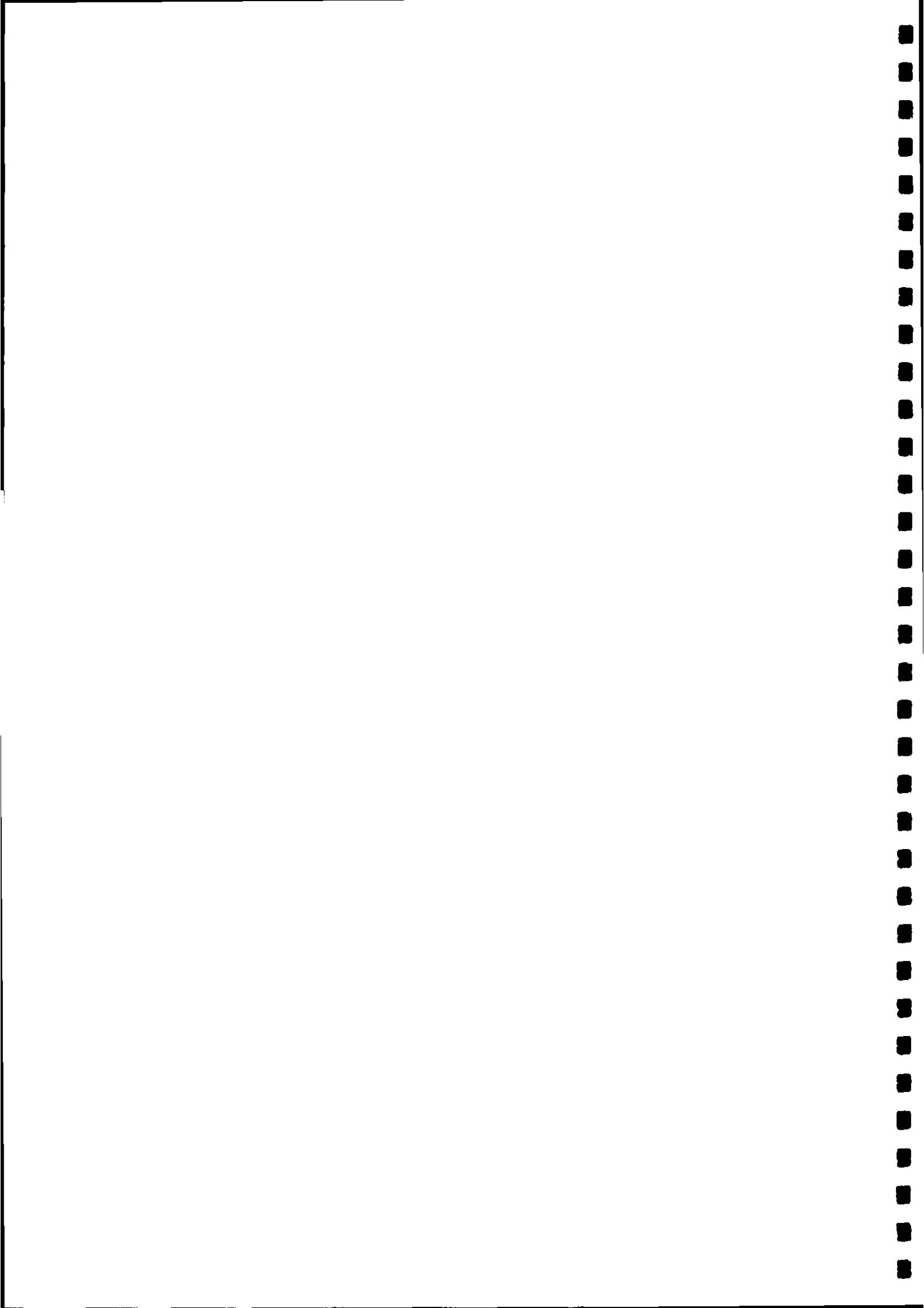
**Deloitte & Touche
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA**





REPORT AND FINANCIAL STATEMENTS 1999

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REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Maffei
B Eshelman
D Svendsen
N Holloway
J F Heitz

SECRETARY

R B Secretariat Limited

REGISTERED OFFICE

Microsoft Campus
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RG6 1WG

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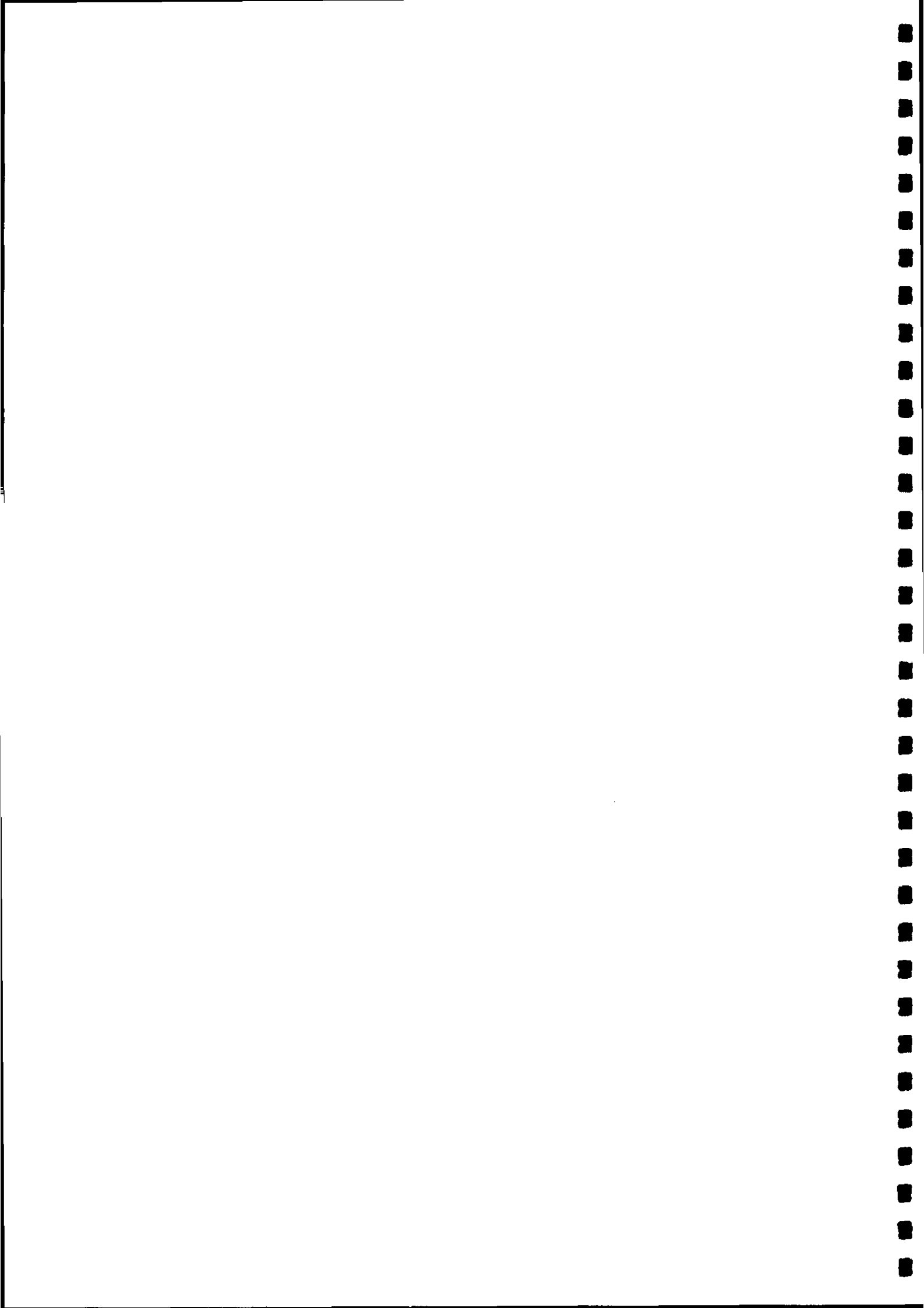
The Law Offices of Marcus J O'Leary
Centennial Court
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REPORT AND FINANCIAL STATEMENTS 1999

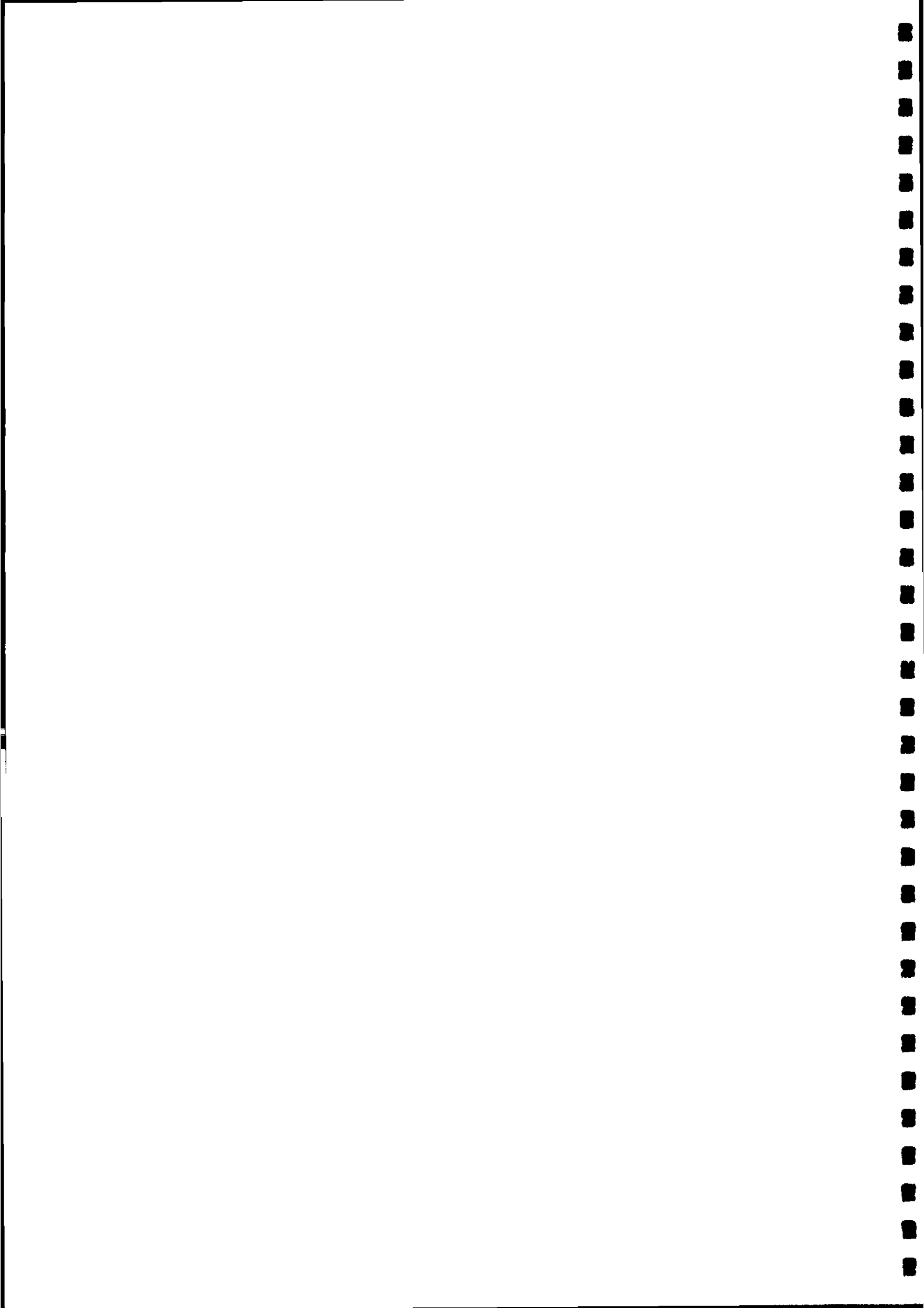
OFFICERS AND PROFESSIONAL ADVISERS

AUDITORS

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

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 2 July 1999.

ACTIVITIES

Microsoft Limited, a subsidiary of Microsoft Corporation, continues to market 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 7.

DIVIDENDS

A dividend of £79,000,000 was paid from reserves during the period (1998 – £37,600,000)

FUTURE PROSPECTS

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

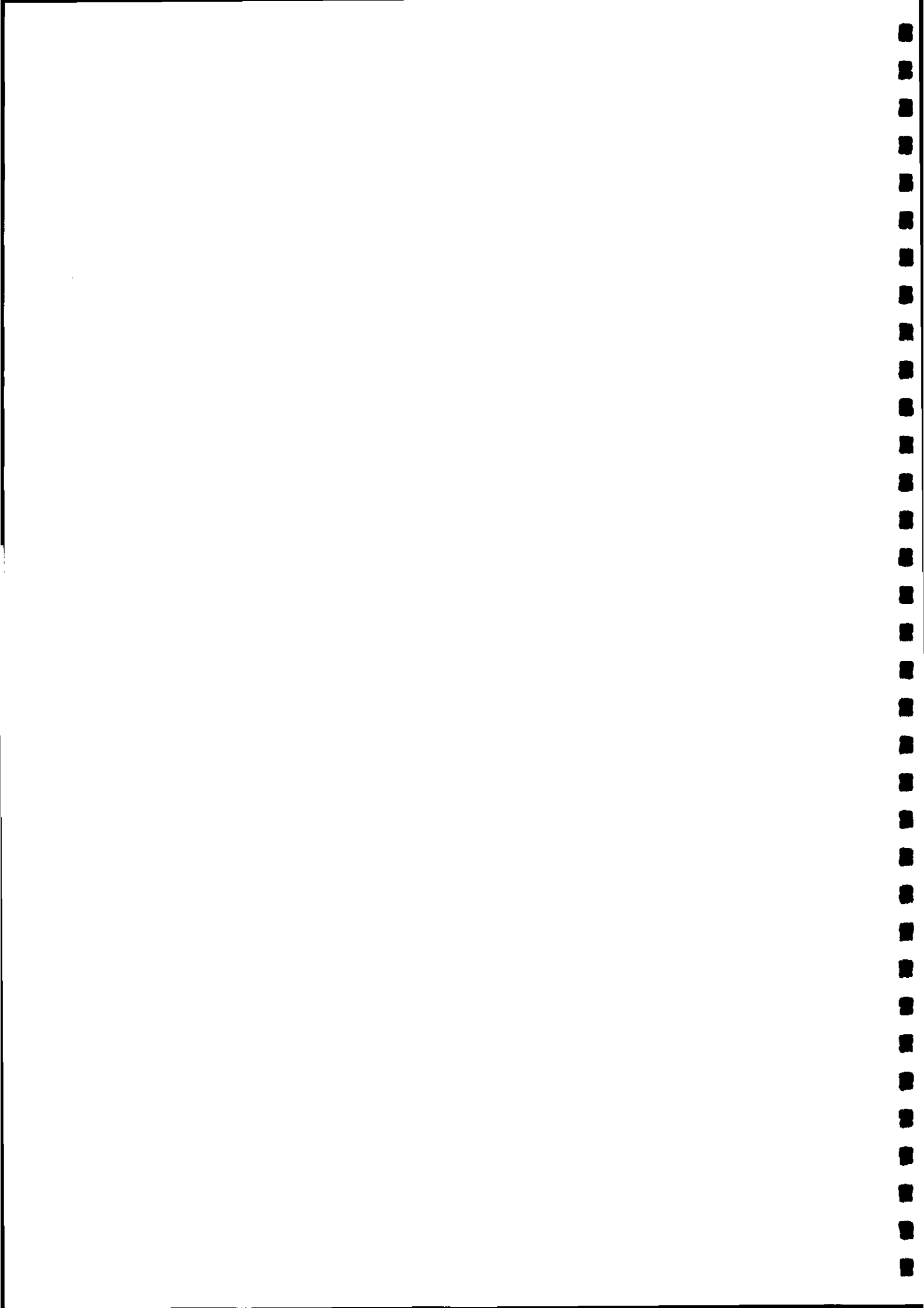
DIRECTORS

The directors who served during the period are shown on page 1.

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

CHARITABLE DONATIONS

During the period, the company made donations for charitable purposes which amounted to £501,908 (1998 – £626,905). No political donations were made (1998 - £nil).



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 purchase plan. 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.

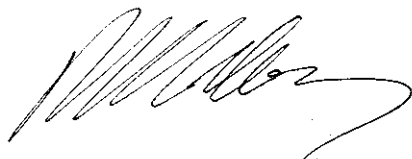
YEAR 2000

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.

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



N Holloway
Director

23 June 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;
- 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.

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MICROSOFT LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 7 to 14 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5 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 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE

Chartered Accountants and
Registered Auditors

23 June 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	225,484	236,729
Cost of sales		(20,544)	(15,578)
GROSS PROFIT		204,940	221,151
Distribution costs		(39,991)	(36,719)
Administrative expenses		(96,160)	(98,529)
Other operating income		528	2,263
OPERATING PROFIT	3	69,317	88,166
Interest receivable and similar income	5	2,228	1,693
Interest payable and similar charges	6	(218)	(24)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		71,327	89,835
Tax on profit on ordinary activities	7	(23,600)	(27,600)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		47,727	62,235
Dividends paid	8	(79,000)	(37,600)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR, TRANSFERRED (FROM)/TO RESERVES		(31,273)	24,635
Profit and loss account brought forward		35,297	10,662
Profit and loss account carried forward		4,024	35,297

All amounts derive from continuing operations.

There are no recognised gains and losses for the current and preceding financial periods other than as stated in the profit and loss account. Accordingly, no statement of total recognised gains or losses is given.

BALANCE SHEET

2 July 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	9	8,725	11,316
Investments	10	1	-
		<u>8,726</u>	<u>11,316</u>
CURRENT ASSETS			
Debtors	11	49,920	79,795
Cash at bank and in hand		1,550	10,635
		<u>51,470</u>	<u>90,430</u>
CREDITORS: amounts falling due within one year			
Trade creditors		7,150	2,242
Amounts owed to group undertakings:			
Parent company		42	29
Fellow subsidiary undertakings		144	357
Other creditors including taxation and social security	12	33,938	40,468
Accruals and deferred income		14,883	23,338
		<u>56,157</u>	<u>66,434</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(4,687)</u>	<u>23,996</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,039</u>	<u>35,312</u>
CAPITAL AND RESERVES			
Called up share capital	13	15	15
Profit and loss account		4,024	35,297
EQUITY SHAREHOLDERS' FUNDS	14	<u>4,039</u>	<u>35,312</u>

These financial statements were approved by the Board of Directors on 23 June 2000.

Signed on behalf of the Board of Directors

N Holloway
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.

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	33% per annum
Computer and technical equipment	33% to 100% per annum
Leasehold improvements	over the period of the lease

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 translated into sterling at the average rate ruling for the month of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date.

All exchange gains and losses are taken to the profit and loss account.

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

2. TURNOVER

Turnover represents amounts received and receivable, excluding value added tax, in respect of goods and services provided during the period. Turnover, 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.

	1999 £'000	1998 £'000
Sales to third parties	16,422	21,187
Sales within the group	209,062	215,542
	<u>225,484</u>	<u>236,729</u>

3. OPERATING PROFIT

	1999 £'000	1998 £'000
Operating profit is stated after charging/(crediting):		
Rentals under operating leases		
Hire of plant and machinery	2,037	1,691
Other operating leases	6,117	6,159
Auditors' remuneration - other services	7	7
Depreciation - owned assets	8,467	6,872
Loss on disposal of fixed assets	-	2
Foreign currency losses	17	33
	<u>17</u>	<u>33</u>

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

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1999 No.	1998 No.
Average number of persons employed:		
Sales and distribution	850	739
Administration	30	42
	<u>880</u>	<u>781</u>

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1999 £'000	1998 £'000
Staff costs (including directors):		
Wages and salaries	36,280	33,072
Social security costs	3,822	3,593
	<u>40,102</u>	<u>36,665</u>

Two directors received remuneration and pension during the period (1998 - 1), and this was as follows:

	1999 £'000	1998 £'000
Other emoluments	<u>347</u>	<u>212</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1999 £'000	1998 £'000
Interest receivable from parent company	1,650	864
Bank deposit interest receivable	578	829
	<u>2,228</u>	<u>1,693</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £'000	1998 £'000
Bank loans and overdrafts	<u>218</u>	<u>24</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
UK corporation tax at 30.75% (1998 - 31%)	23,600	28,700
Adjustment to prior years	-	(1,100)
	<u>23,600</u>	<u>27,600</u>

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

8. DIVIDENDS

	1999 £'000	1998 £'000
Paid – £5,266 per equity ordinary share (1998 : £2,506)	79,000	37,600

9. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold Improve- ments £'000	Total £'000
Cost				
At 28 June 1998	6,790	16,911	1,202	24,903
Additions	894	4,054	928	5,876
Disposals	-	(4,469)	-	(4,469)
At 2 July 1999	7,684	16,496	2,130	13,587
Accumulated depreciation				
At 28 June 1998	1,818	11,605	164	13,587
Charge for the period	1,980	6,156	331	8,467
Disposals	-	(4,469)	-	(4,469)
At 2 July 1999	3,798	13,292	495	17,585
Net book value				
At 2 July 1999	3,886	3,204	1,635	8,725
At 27 June 1998	4,972	5,306	1,038	11,316

10. INVESTMENTS

	1998 £'000
Shares in group companies	
At 28 June 1998	-
Additions	1
At 2 July 1999	1

The wholly owned subsidiary is Softimage Limited, a company incorporated in Great Britain. The results of Softimage Limited are not consolidated on the grounds of materiality. These financial statements therefore present information about Microsoft Limited as an individual undertaking and not as a group.

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

11. DEBTORS

	1999 £'000	1998 £'000
Trade debtors	4,104	3,304
Amounts owed by group undertakings:		
- parent company	2,949	60,487
- fellow subsidiary undertakings	16,567	3,872
Other debtors	22,747	10,816
Prepayments and accrued income	3,553	1,316
	<u>49,920</u>	<u>79,795</u>

Prepayments and accrued income include £691,475 (1998 - £705,040) which is due after more than one year.
All other debts are due within one year.

12. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1999 £'000	1998 £'000
This heading includes:		
Taxation and social security	<u>30,645</u>	<u>37,399</u>

13. CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised, called up, allotted and fully paid		
15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

14. MOVEMENTS ON SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Profit for the financial year	47,727	62,235
Dividends paid	(79,000)	(37,600)
Net addition to shareholders' funds	<u>(31,273)</u>	<u>24,635</u>
Opening shareholders' funds	35,312	10,677
Closing shareholders' funds	<u>4,039</u>	<u>35,312</u>

NOTES TO THE ACCOUNTS

52 weeks ended 2 July 1999

15. COMMITMENTS AND CONTINGENT LIABILITIES

At 2 July 1999 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 1999 £'000	Other 1999 £'000	Land and Buildings 1998 £'000	Other 1998 £'000
Operating leases which expire:				
Within 1 year	7,003	431	1,652	60
Between 2 and 5 years inclusive	26,268	691	-	120
After 5 years	79,248	-	-	-
	<u>112,519</u>	<u>1,122</u>	<u>1,652</u>	<u>180</u>

16. ULTIMATE PARENT UNDERTAKING

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.

17. 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.