

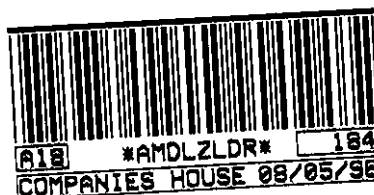


MICROSOFT LIMITED

Report and Financial Statements

30 June 1995

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





REPORT AND FINANCIAL STATEMENTS 1995

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**REPORT AND FINANCIAL STATEMENTS 1995****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 financial year ended 30 June 1995.

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

With effect from 7 March 1994, the company became a commission agent of two fellow subsidiary companies. Because the company earns commission under these agreements, rather than receiving the gross sales value and paying for the cost of goods sold, the profit and loss account for the year ended 30 June 1995 shows a reduction in turnover and cost of sales despite a real growth in the volume of business.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (1994 - £nil).

The retained profit for the financial year of £13,186,000 (1994 - £11,789,000) 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 8 to the accounts.

DIRECTORS

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

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 year.

CHARITABLE DONATIONS

During the year, the company made donations for charitable purposes which amounted to £200,812 (1994 - £200,000). 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

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche, and accordingly have signed their audit report in their new name. A resolution for the reappointment of Deloitte & Touche as auditors of the company 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

30th April 1996



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, safeguarding the assets of the company and for the prevention and detection of fraud and other irregularities.



Chartered Accountants

Deloitte & Touche
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1 Little New Street
London EC4A 3TR

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MICROSOFT LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 11.

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 30 June 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

30 April 1996


PROFIT AND LOSS ACCOUNT

Year ended 30 June 1995

	Note	1995 £'000	1994 £'000
TURNOVER	2	83,380	102,933
Cost of sales		(3,423)	(27,545)
GROSS PROFIT		79,957	75,388
Distribution costs		(20,340)	(21,605)
Administrative expenses		(46,752)	(38,767)
Other operating income		4,761	2,885
OPERATING PROFIT	3	17,626	17,901
Interest receivable and similar income	5	1,564	703
Interest payable and similar charges	6	(2)	(496)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		19,188	18,108
Tax on profit on ordinary activities	7	(6,002)	(6,319)
RETAINED PROFIT FOR THE FINANCIAL YEAR, TRANSFERRED TO RESERVES		13,186	11,789
Profit and loss account brought forward		16,379	4,590
Profit and loss account carried forward		29,565	16,379

All activities 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
30 June 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	8	11,020	11,962
CURRENT ASSETS			
Stocks	9	112	830
Debtors: amounts falling due within one year	10	49,346	27,018
Cash at bank and in hand		1,967	9,683
		<u>51,425</u>	<u>37,531</u>
CREDITORS: amounts falling due within one year			
Bank loans and overdrafts		-	1,112
Trade creditors		7,636	2,049
Amounts owed to group undertakings:			
Parent company		790	4,524
Fellow subsidiary undertakings		8,859	11,379
Other creditors including taxation and social security	11	8,310	8,100
Accruals and deferred income		7,210	4,945
		<u>32,805</u>	<u>32,109</u>
NET CURRENT ASSETS		<u>18,620</u>	<u>5,422</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		29,640	17,384
PROVISIONS FOR LIABILITIES AND CHARGES	12	(60)	(990)
		<u>29,580</u>	<u>16,394</u>
CAPITAL AND RESERVES			
Called up share capital	13	15	15
Profit and loss account		29,565	16,379
EQUITY SHAREHOLDERS' FUNDS		<u>29,580</u>	<u>16,394</u>

These financial statements were approved by the Board of Directors on 30 April 1996.

Signed on behalf of the Board of Directors

D Svendsen
Director

CASH FLOW STATEMENT
Year ended 30 June 1995

	Note	1995 £'000	1994 £'000
Net cash inflow from operating activities	1	3,394	12,101
Returns on investment and servicing of finance			
Interest received		805	692
Interest paid		(2)	(667)
Net cash inflow from returns on investments and servicing of finance		803	25
Taxation			
UK corporation tax paid		(6,655)	(1,430)
ACT paid		-	(4,590)
Corporation tax recovered as a result of ACT carried back		-	1,000
Net tax paid		(6,655)	(5,020)
Investing activities			
Payments to acquire tangible fixed assets		(4,364)	(2,330)
Receipts from sales of tangible fixed assets		218	-
Net cash outflow from investing activities		(4,146)	(2,330)
Net cash (outflow)/inflow before financing		(6,604)	4,776
Financing			
Repayment of short term loan from fellow subsidiary undertaking	4	-	(12,500)
Net cash outflow from financing		-	(12,500)
Decrease in cash and cash equivalents	2	(6,604)	(7,724)


NOTES TO THE CASH FLOW STATEMENT
Year ended 30 June 1995
1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1995 £'000	1994 £'000
Operating profit	17,626	17,901
Depreciation charges	5,014	4,444
Loss on sale of tangible fixed assets	74	321
Decrease/(increase) in stocks	718	(472)
Increase in debtors	(22,328)	(9,204)
(Decrease)/increase in creditors	2,290	(889)
Net cash inflow from operating activities	<u>3,394</u>	<u>12,101</u>

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

	1995 £'000	1994 £'000
Balance at start of financial year	8,571	16,295
Net cash outflow	<u>(6,604)</u>	<u>(7,724)</u>
Balance at end of financial year	<u>1,967</u>	<u>8,571</u>

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

	1995 £'000	Change in year £'000	1994 £'000	Change in year £'000	1993 £'000
Cash at bank and in hand	1,967	(7,716)	9,683	(6,612)	16,295
Bank loans and overdrafts	-	1,112	(1,112)	(1,112)	-
	<u>1,967</u>	<u>(6,604)</u>	<u>8,571</u>	<u>(7,724)</u>	<u>16,295</u>



NOTES TO THE CASH FLOW STATEMENT
Year ended 30 June 1995

4. ANALYSIS OF THE CHANGES IN FINANCING DURING THE YEAR

	Short term loan from fellow subsidiary undertaking	
	1995	1994
	£'000	£'000
Balance at start of financial year	-	12,500
Cash outflow from financing	-	(12,500)
	<hr/>	<hr/>
Balance at end of financial year	-	-
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year ended 30 June 1995

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
Year ended 30 June 1995
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.

	1995 £'000	1994 £'000
Sales to third parties	14,307	40,505
Sales within the group	69,073	62,428
	<u>83,380</u>	<u>102,933</u>

3. OPERATING PROFIT

	1995 £'000	1994 £'000
Operating profit is stated after charging:		
Rentals under operating leases		
Hire of plant and machinery	1,060	1,126
Other operating leases - with fellow subsidiary	1,720	1,720
	929	820
Auditors' remuneration - audit	37	38
- other services	7	88
Depreciation - owned assets	5,014	4,444
Loss on disposal of fixed assets	74	321
Foreign currency losses	106	195
	<u>106</u>	<u>195</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1995 No.	1994 No.
Average number of persons employed:		
Sales and distribution	542	440
Administration	52	57
	<u>594</u>	<u>497</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1995 £'000	1994 £'000
Staff costs (including directors):		
Wages and salaries	17,410	13,737
Social security costs	1,734	1,409
	<u>19,144</u>	<u>15,146</u>

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

	1995 £'000	1994 £'000
Other emoluments	<u>146</u>	<u>137</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1995 £'000	1994 £'000
Interest receivable from parent company	759	11
Bank deposit interest receivable	805	692
	<u>1,564</u>	<u>703</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1995 £'000	1994 £'000
Interest payable on loan from fellow subsidiary undertaking	-	495
Other interest payable and similar charges	2	1
	<u>2</u>	<u>496</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1995 £'000	1994 £'000
UK corporation tax at 33% (1994 - 33%) based on the profit for the year	6,562	6,639
Adjustment to prior years	(560)	(320)
	<u>6,002</u>	<u>6,319</u>

There are no amounts of provided or unprovided deferred tax.


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
8. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 2 July 1994	4,924	9,761	7,358	22,043
Additions	2,020	2,208	136	4,364
Disposals	(874)	-	-	(874)
At 30 June 1995	6,070	11,969	7,494	25,533
Accumulated depreciation				
At 2 July 1994	2,121	6,235	1,725	10,081
Charge for the period	1,395	2,572	1,047	5,014
Disposals	(582)	-	-	(582)
At 30 June 1995	2,934	8,807	2,772	14,513
Net book value				
At 30 June 1995	3,136	3,162	4,722	11,020
At 2 July 1994	2,803	3,526	5,633	11,962

9. STOCKS

	1995 £'000	1994 £'000
Finished goods	112	830

In the opinion of the directors, there is no material difference between the carrying value and replacement cost of stocks.


NOTES TO THE ACCOUNTS
Year ended 30 June 1995
10. DEBTORS

	1995 £'000	1994 £'000
Trade debtors	3,001	8,286
Amounts owed by group undertakings:		
- parent company	24,182	10,113
- fellow subsidiary undertakings	14,896	4,648
Other debtors	1,930	2,336
Prepayments and accrued income	5,337	1,635
	<u>49,346</u>	<u>27,018</u>

Prepayments and accrued income include £256,000 (1994 - £56,000) which is due after more than one year.
All other debts are due within one year.

11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1995 £'000	1994 £'000
This heading includes:		
Taxation and social security	<u>7,015</u>	<u>7,281</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

	2 July 1994 £'000	Applied £'000	30 June 1995 £'000
Customer rebates	460	(460)	-
Other provisions	530	(470)	60
	<u>990</u>	<u>(930)</u>	<u>60</u>

13. CALLED UP SHARE CAPITAL

	1995 £'000	1994 £'000
Authorised, allotted and fully paid 15,000 ordinary shares of £1 each	<u>15</u>	<u>15</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 1995

14. MOVEMENTS ON SHAREHOLDERS' FUNDS

	1995 £'000	1994 £'000
Profit for the financial year	13,186	11,789
Net addition to shareholders' funds	13,186	11,789
Opening shareholders' funds	16,394	4,605
Closing shareholders' funds	29,580	16,394

15. COMMITMENTS AND CONTINGENT LIABILITIES

At 30 June 1995 the company was committed to making the following payments during the next year in respect of operating leases:

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

The above figure of £1,720,000 for leases expiring in more than five years relates to property which was transferred to a fellow subsidiary undertaking, Microsoft Properties UK Limited and leased back under an operating lease. It is possible that the committed future rentals payable by the company may be in excess of market rates. No provision is currently considered to be required for this possible exposure.

At 30 June 1995, capital expenditure of £104,000 (1994 - £676,000) had been authorised and contracted for but not provided for in the financial statements.

16. 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.