



MICROSOFT LIMITED

Report and Financial Statements

27 June 1997

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



**REPORT AND FINANCIAL STATEMENTS 1997**

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**REPORT AND FINANCIAL STATEMENTS 1997****OFFICERS AND PROFESSIONAL ADVISERS****DIRECTORS**

G Maffei
B Eshelman
D Svendsen

SECRETARY

G C S C Francis

REGISTERED OFFICE

Microsoft Campus
Thames Valley Park
Reading
Berkshire
RG6 1WG

BANKERS

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

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PO Box 449
Riverdale House
Molesworth Street
London
SE13 7EU

SOLICITORS

Field Seymour Parkes
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Reading
Berkshire
RG1 4QW

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

Denton Hall
5 Chancery Lane
Cliffords Inn
London
EC4A 1BU

The Law Offices of Marcus J O'Leary
Centennial Court
Easthampstead Road
Bracknell
Berkshire RG12 1YQ

Garrett & Co
180 Strand
London
WC2R 2NN

Masons Solicitors
30 Aylesbury Street
London
EC1R 0ER

Richards Butler
Beaufort House
15 St Botolph Street
London
EC3A 7EE

Covington & Burling
Leconfield House
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London
W1Y 8AS



REPORT AND FINANCIAL STATEMENTS 1997

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 27 June 1997.

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 £51,000,000 was paid from reserves during the period (1996 - £22,200,000).

FUTURE PROSPECTS

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

DIRECTORS

The directors who served during the year were as follows:

	appointed	resigned
G Maffei	15 July 1996	-
M W Brown	-	15 July 1996
D Curtis	-	15 July 1996
B Eshelman	15 July 1996	-
D Svendsen	-	-

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 £400,000 (1996 - £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 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.

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

27 April 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 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.



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 27 June 1997 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

27 April 1998

PROFIT AND LOSS ACCOUNT
52 weeks ended 27 June 1997

	Note	1997 £'000	1996 £'000
TURNOVER	2	165,255	134,307
Cost of sales		(11,283)	(9,716)
GROSS PROFIT		153,972	124,591
Distribution costs		(27,355)	(27,783)
Administrative expenses		(82,218)	(64,049)
Other operating income		4,127	2,551
OPERATING PROFIT	3	48,526	35,310
Interest receivable and similar income	5	2,159	1,582
Interest payable and similar charges	6	(37)	(19)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		50,648	36,873
Tax on profit on ordinary activities	7	(20,194)	(13,030)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		30,454	23,843
Dividends paid	8	(51,000)	(22,200)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR, TRANSFERRED (FROM)/TO RESERVES		(20,546)	1,643
Profit and loss account brought forward		31,208	29,565
Profit and loss account carried forward		10,662	31,208

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
27 June 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	9	8,095	10,739
CURRENT ASSETS			
Debtors	10	56,337	40,941
Cash at bank and in hand		8,394	11,756
		<u>64,731</u>	<u>52,697</u>
CREDITORS: amounts falling due within one year			
Trade creditors		6,196	6,127
Amounts owed to group undertakings:			
Parent company		-	14
Fellow subsidiary undertakings		9,162	337
Other creditors including taxation and social security	11	26,432	15,719
Accruals and deferred income		20,359	10,016
		<u>62,149</u>	<u>32,213</u>
NET CURRENT ASSETS		<u>2,582</u>	<u>20,484</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,677</u>	<u>31,223</u>
CAPITAL AND RESERVES			
Called up share capital	12	15	15
Profit and loss account		10,662	31,208
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	<u>10,677</u>	<u>31,223</u>

These financial statements were approved by the Board of Directors on **27** April 1998.

Signed on behalf of the Board of Directors

D Svendsen
Director

**NOTES TO THE ACCOUNTS**
52 weeks ended 27 June 1997**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 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.

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 27 June 1997

2. TURNOVER

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

	1997 £'000	1996 £'000
Sales to third parties	16,748	17,865
Sales within the group	148,507	116,442
	<u>165,255</u>	<u>134,307</u>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	1997 £'000	1996 £'000
Rentals under operating leases		
Hire of plant and machinery	1,341	995
Other operating leases	-	1,497
- with fellow subsidiary		
- other	2,672	1,389
Auditors' remuneration	40	39
- audit		
- other services	7	7
Depreciation - owned assets	8,340	4,871
Loss on disposal of fixed assets	718	144
Foreign currency (gains)/losses	(12)	85
	<u></u>	<u></u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 No.	1996 No.
Average number of persons employed:		
Sales and distribution	671	623
Administration	56	52
	<u>727</u>	<u>675</u>



NOTES TO THE ACCOUNTS
52 weeks ended 27 June 1997

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1997 £'000	1996 £'000
Staff costs (including directors):		
Wages and salaries	27,346	21,778
Social security costs	2,859	2,166
	<u>30,205</u>	<u>23,944</u>

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

	1997 £000	1996 £'000
Other emoluments	<u>177</u>	<u>152</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1997 £'000	1996 £'000
Interest receivable from parent company	1,305	868
Bank deposit interest receivable	854	714
	<u>2,159</u>	<u>1,582</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
Bank loans and overdrafts	<u>37</u>	<u>19</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £'000	1996 £'000
UK corporation tax at 33% (1996 - 33%)	18,500	12,742
Adjustment to prior years	1,694	288
	<u>20,194</u>	<u>13,030</u>


NOTES TO THE ACCOUNTS
52 weeks ended 27 June 1997
8. DIVIDENDS

	1997 £'000	1996 £'000
Interim paid - £3,400 per equity ordinary share (1996: £1,480)	<u>51,000</u>	<u>22,200</u>

9. TANGIBLE FIXED ASSETS

	Office equipment, furniture and fittings £'000	Computer and technical equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 29 June 1996	5,926	14,152	8,328	28,406
Additions	149	6,268	-	6,417
Disposals	(676)	(5,808)	-	(6,484)
At 27 June 1997	<u>5,399</u>	<u>14,612</u>	<u>8,328</u>	<u>28,339</u>
Accumulated depreciation				
At 29 June 1996	3,557	10,140	3,970	17,667
Charge for the year	1,190	2,865	4,285	8,340
Disposals	(547)	(5,216)	-	(5,763)
At 27 June 1997	<u>4,200</u>	<u>7,789</u>	<u>8,255</u>	<u>20,244</u>
Net book value				
At 27 June 1997	<u>1,199</u>	<u>6,823</u>	<u>73</u>	<u>8,095</u>
At 28 June 1996	<u>2,369</u>	<u>4,012</u>	<u>4,358</u>	<u>10,739</u>

10. DEBTORS

	1997 £'000	1996 £'000
Trade debtors	4,057	3,669
Amounts owed by group undertakings:		
- parent company	24,876	9,903
- fellow subsidiary undertakings	10,835	7,543
Other debtors	14,869	6,788
Prepayments and accrued income	1,700	13,038
	<u>56,337</u>	<u>40,941</u>

Prepayments and accrued income include £617,659 (1996 - £179,392) which is due after more than one year. All other debts are due within one year.


NOTES TO THE ACCOUNTS

52 weeks ended 27 June 1997

11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1997 £'000	1996 £'000
This heading includes:		
Taxation and social security	24,607	14,278

12. CALLED UP SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised, allotted and fully paid 15,000 ordinary shares of £1 each	15	15

13. MOVEMENTS ON SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the financial year	30,454	23,843
Dividends paid	(51,000)	(22,200)
Net addition to shareholders' funds	(20,546)	1,643
Opening shareholders' funds	31,223	29,580
Closing shareholders' funds	10,677	31,223

14. COMMITMENTS AND CONTINGENT LIABILITIES

At 27 June 1997 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 1997 £'000	Other 1997 £'000	Land and buildings 1996 £'000	Other 1996 £'000
Operating leases which expire:				
Within 1 year	1,712	-	128	1
Between 2 and 5 years inclusive	120	-	2,555	-
	1,832	-	2,683	1

At 27 June 1997, capital expenditure of £3,900,000 (1996 - £20,000) had been authorised and contracted for but not provided for in the financial statements.

15. 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.



NOTES TO THE ACCOUNTS
52 weeks ended 27 June 1997

16. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No. 8 "Related Party Transactions", transactions with other group undertakings within, and investee related parties of, the Microsoft Corporation group have not been disclosed in these financial statements.