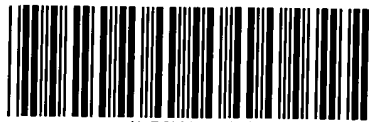


**RARE LIMITED**

**Report and Financial Statements**  
**Year ended 30 June 2015**

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# **RARE LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2015**

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# **RARE LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2015**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTOR**

K R Dolliver  
B O Orndorff

#### **SECRETARY**

Reed Smith Corporate Services Limited

#### **REGISTERED OFFICE**

The Broadgate Tower  
Third Floor  
20 Primrose Street  
London  
EC2A 2RS

#### **BANKERS**

Lloyds TSB Corporate  
Butt Dyke House  
33 Park Row  
Nottingham  
NG1 6GY

#### **SOLICITORS**

Pinsent Masons  
3 Colmore Circus  
Birmingham  
B4 6BH

Reed Smith LLP  
The Broadgate Tower  
20 Primrose Street  
London  
EC2A 2RS

Osborne Clarke  
2 Temple Back East  
Temple Quay  
Bristol  
BS1 6EG

#### **TAX ADVISERS**

KPMG LLP  
Theale  
Berkshire

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge  
United Kingdom

# **RARE LIMITED**

## **STRATEGIC REPORT**

The directors present their Strategic Report for Rare Limited ("the Company") for the year ended 30 June 2015.

### **BUSINESS REVIEW**

The primary purpose of the Rare Limited is the writing and development of video games software.

Excluding the impact of the cross-charge income (£10,764,293) from Interactive Game Development Ltd (IGDL), turnover has decreased by 92% during the year due to the set-up of Interactive Games Development Limited (IGDL) and employee staffing costs relating to games in development being transferred to IGDL in line with the intercompany agreement. During the year, product development costs relating to games in development have been expensed to IGDL directly instead of Rare Limited.

The Company operates as a key strategic franchisee, developing products to requirements specified by its holding company with the main aim of increasing market share and profitability for the Group.

The Company continues to perform to plan and is monitored by its holding company by way of a three year rolling plan.

The business continues to work to maximise the potential of the group's innovation in the electronic gaming sector.

### **RISKS AND UNCERTAINTIES**

The Company's activities expose it to a number of financial risks including cash flow, credit, liquidity and market. The Company does not use derivative financial instruments for speculative purposes or to hedge these risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation.

#### **Cash flow risk**

The Company's activities expose it primarily to the financial risk of changes in foreign currency exchange rates. Interest bearing assets are held at fixed rates to ensure certainty of cash flows.

#### **Credit risk**

The Company's principal financial assets are bank balances, trade and other debtors.

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of these cash flows.

#### **Liquidity risk**

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company relies on support from its parent company, Microsoft Corporation.

#### **Market risk**

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and to wider long-term market trends.

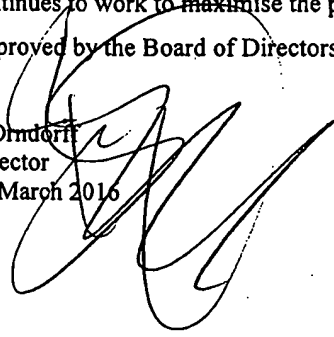
The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

## **RARE LIMITED**

### **STRATEGY, OBJECTIVES AND BUSINESS MODEL**

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2015, which are publicly available. Rare Limited's business model is expected to remain as it continues to work to maximise the potential of the Group's innovation in the electronic gaming sector.

Approved by the Board of Directors and signed on behalf of the Board

  
B Omdorff  
Director  
30 March 2016

# **RARE LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 30 June 2015.

### **GOING CONCERN**

The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

### **RESULTS AND DIVIDENDS**

The loss for the year amounted to (£230,827) (2014: profit £1,004,540). During the year the directors paid an interim dividend of £572,726 (2014: £4,490,860).

### **DIRECTORS AND THEIR INTERESTS**

The directors who held office during the year and to the date of signing were as follows:

K R Dolliver  
B O Orndorff

### **EMPLOYEE CONSULTATION**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings.

### **DISABLED EMPLOYEES**

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **SUPPLIER PAYMENT POLICY**

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, and ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

## **RARE LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **AUDITOR**

Each of the persons who is a director as at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with provisions of S418 of the Companies Act 2006.

Pursuant to S485-488 Companies Act 2006, an elective resolution has been passed dispensing with the requirement to appoint the auditor annually.

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors  
and signed on behalf of the Board on 30 March 2016

B Oyndorff  
Director



## **RARE LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- selects suitable accounting policies and then apply them consistently;
- makes judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepares the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RARE LIMITED**

We have audited the financial statements of Rare Limited for the year ended 30 June 2015 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Julian Rae

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, UK

30 March 2016

## RARE LIMITED

### PROFIT AND LOSS ACCOUNT Year ended 30 June 2015

	Note	2015 £	2014 £
<b>TURNOVER</b>	2	12,081,464	16,130,710
Administrative expenses		(11,870,296)	(14,650,622)
<b>OPERATING PROFIT</b>	4	211,168	1,480,088
Interest receivable and similar income	5	86,577	96,192
Interest payable	6	(9,452)	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		288,293	1,576,280
Tax on profit on ordinary activities	7	(519,120)	(571,740)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	15	(230,827)	1,004,540

All the activities of the company are classed as continuing.

There are no recognised gains and losses for the current year or prior year other than as stated in the profit and loss account. Accordingly, no statement of total recognised gains and losses is presented.

# RARE LIMITED

## BALANCE SHEET At 30 June 2015

	Note	2015 £	2014 £
<b>FIXED ASSETS</b>			
Tangible assets	9	2,733,162	2,543,920
<b>CURRENT ASSETS</b>			
Debtors	10	14,660,117	15,579,967
Cash at bank and in hand		-	15,337
		14,660,117	15,595,304
<b>CREDITORS: amounts falling due within one year</b>	12	(2,313,342)	(2,127,889)
<b>NET CURRENT ASSETS</b>		12,346,775	13,467,415
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		15,079,937	16,011,335
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	13	-	(127,845)
<b>NET ASSETS</b>		15,079,937	15,883,490
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	14,767,000	14,767,000
Share premium account	15	8,303	8,303
Profit and loss account	15	304,634	1,108,187
<b>SHAREHOLDERS' FUNDS</b>	15	15,079,937	15,883,490

These financial statements of Rare Limited (company registration number 01905690) were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors

Ben Orndorff  
Director

## **RARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 30 June 2015**

#### **1. ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. They have all been applied consistently throughout the current and preceding year.

##### **Going concern**

The Company generates income predominantly from recharges made to other Microsoft group companies. Therefore the future profitability of the Company is dependent on the Company and Group's ability to continue to develop video games software and market these successfully.

The Company is showing strong net current asset and net asset positions.

There is a risk that changes in the economic climate or in the gaming technology could lead to a downturn in sales which could result in reduced demand for Rare's services. However, management are satisfied that the Group continues to perform strongly in the gaming sector and believe there will continue to be strong demand for the company's products for the foreseeable future.

The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and the Microsoft Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

##### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on cost less residual value in equal annual instalments over the estimated useful lives of the assets. The estimated useful economic lives are as follows:

Buildings	15 years
Computer equipment	2 years
Fixtures, fittings and vehicles	3 - 5 years
Land is not depreciated.	

##### **Stock**

All work in progress is expensed to the profit and loss account as it is incurred.

##### **Turnover**

Turnover represents royalty income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. This revenue is recognised on a monthly basis.

##### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **Research and development expenditure**

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

## RARE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

#### 1. ACCOUNTING POLICIES (Continued)

##### Pensions

The company operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the company. The contributions are charged to the profit and loss account as they become due and payable.

##### 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 into sterling at the closing rate of exchange at the balance sheet date.

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

##### Operating leases

The annual rentals on operating leases are charged to profit and loss on a straight-line basis over the lease term.

#### 2. TURNOVER

Turnover represents royalty income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. In the year to 30 June 2015, royalty income from Japan totalled £119,207 (2014: £6) and amounts derived from the mark-up on costs from the United States totalled £1,197,964 (2014: £16,130,704).

Analysis by geographical market:

	2015 £	2014 £
Japan	119,207	6
United States	1,197,964	16,130,704
	<u>1,317,171</u>	<u>16,130,710</u>

#### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2015 No.	2014 No.
The average number of employees during the year was:		
Office and management staff	<u>101</u>	<u>120</u>
Staff costs:	£	£
Wages and salaries	5,954,517	6,659,190
Social security costs	721,894	1,798,938
Pension	330,050	558,013
	<u>7,006,461</u>	<u>9,016,141</u>

Redundancy payments were made in the year amounting to £70,731 (2014: £532,876).

The directors received remuneration paid by Microsoft Corporation in respect of their services to group companies for the years ended 30 June 2015 and 2014. The portion of this that relates to the Company is £Nil (2014: £Nil).

# RARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 4. OPERATING PROFIT

	2015 £	2014 £
<b>Operating profit is stated after charging:</b>		
Depreciation of tangible fixed assets – owned	601,875	536,210
Net loss on foreign exchange translation	147,165	5,299
Auditor's remuneration – audit services	26,310	25,668
Research and development expenditure	8,914,866	11,506,711
Operating lease rentals	160,052	186,726

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £	2014 £
Interest receivable from group companies	86,577	96,192

### 6. INTEREST PAYABLE

	2015 £	2014 £
Other interest	9,452	-

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £	2014 £
UK corporation tax – current period	46,200	213,804
Adjustments in respect of prior year - UK corporation tax	427,516	354,252
Total current tax charge	473,716	568,056
Deferred tax – origination and reversal of timing differences	50,508	11,936
Adjustment in respect of prior periods	(5,104)	(8,252)
Total deferred tax charge for the year	45,404	3,684
Total tax charge	519,120	571,740

## RARE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2015

#### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

The blended rate of current tax for the year, based on the UK standard rate of corporation tax is 20.75% (2014: 22.5%). The current tax charge for the year differs from 20.75% for the reasons set out in the following reconciliation:

	2015 £	2014 £
Profit on ordinary activities before tax	288,293	1,576,280
Tax charge on ordinary activities at 20.75% (2014: 22.5%)	59,821	354,663
Effects of:		
Expenses not deductible for tax purposes	(11,049)	50,331
Capital allowances in excess of depreciation	(3,298)	11,502
Prior year adjustment in respect of corporation tax	427,516	583,073
Permanent adjustments	726	302
Research and development deduction	-	(431,815)
Current tax charge for the year	473,716	568,056

#### 8. DIVIDENDS ON EQUITY SHARES

	2015 £	2014 £
Interim dividend for the year ended 30 June 2015 of 4p (2014: 30p) per ordinary share	572,726	4,490,860

# RARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 9. TANGIBLE FIXED ASSETS

	Land & buildings £	Computer equipment £	Fixtures, fittings and vehicles £	Total £
<b>Cost</b>				
At 1 July 2014	12,940,298	1,792,049	1,533,238	16,265,585
Additions	-	484,252	306,865	791,117
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2015	12,940,298	2,276,301	1,840,103	17,056,702
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 1 July 2014	11,241,679	1,272,644	1,207,342	13,721,665
Charge for the year	202,345	142,705	256,825	601,875
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2015	11,444,024	1,415,349	1,464,167	14,323,540
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 30 June 2015	1,496,274	860,952	375,936	2,733,162
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2014	1,698,619	519,405	325,896	2,543,920
	<hr/>	<hr/>	<hr/>	<hr/>



# RARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 10. DEBTORS

	2015 £	2014 £
Amounts owed by group undertakings	12,583,994	14,889,181
Deferred tax (see note 11)	112,551	157,955
Prepayments and accrued income	1,517,184	464,229
Other debtors	255,690	68,602
Corporation tax	190,698	-
	<u>14,660,117</u>	<u>15,579,967</u>

### 11. DEFERRED TAX ASSET

	£
At 1 July 2014	157,955
Deferred tax charge for the year	(45,404)
At 30 June 2015	<u>112,551</u>

Deferred tax is provided as follows:

	2015 £	2014 £
Timing differences in respect of capital allowances	112,551	119,899
Deferred tax on provisions	-	38,056
	<u>112,551</u>	<u>157,955</u>

The Finance Act 2015, which provides for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2016, to 19% effective from 1 April 2017 and 18% effective from 1 April 2020 was substantively enacted on 8 July 2015. At the Summer Budget 2015 These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £	2014 £
Trade creditors	1,302,376	970,919
Taxation and social security	-	46,133
Accruals and deferred income	770,843	867,244
Other creditors	240,123	230,048
Corporation tax	-	13,545
	<u>2,313,342</u>	<u>2,127,889</u>

# RARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2015

### 13. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous leases £'000
Balance at 1 July 2014	127,845
Released to the profit and loss in the period	(127,845)
Balance at 30 June 2015	<u>-</u>

The provision which was outstanding at the end of the previous financial year has been released to the profit and loss account during the current year.

### 14. CALLED UP SHARE CAPITAL

	2015 £	2014 £
Called up, allotted and fully paid 14,767,000 £1 ordinary shares	<u>14,767,000</u>	<u>14,767,000</u>

### 15. COMBINED STATEMENT OF MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up capital share £	Share premium account £	Profit and loss account £	2015 Total £	2014 Total £
At start of year	14,767,000	8,303	1,108,187	15,883,490	19,369,810
(Loss)/profit for the year	-	-	(230,827)	(230,827)	1,004,540
Dividend for the period (note 8)	-	-	(572,726)	(572,726)	(4,490,860)
At end of year	<u>14,767,000</u>	<u>8,303</u>	<u>304,634</u>	<u>15,079,937</u>	<u>15,883,490</u>

### 16. COMMITMENTS UNDER OPERATING LEASES

At 30 June 2015 the company had annual commitments under non-cancellable operating leases as follows:

	2015 £	2014 £
Land and buildings expiring in one year	<u>-</u>	<u>238,412</u>

### 17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the United States of America. This is the only group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available on written request from the Investor Relations Department, Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399, United States of America.

## **RARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2015**

#### **18. RELATED PARTY TRANSACTIONS**

In accordance with Financial Reporting Standard No.8 "Related Party Disclosures", transactions with other wholly - owned group undertakings within the Microsoft group have not been disclosed in these financial statements.