

Company No: 3547882

**Razorfish UK Limited (formerly Avenue A |
Razorfish Limited)**

Report and Financial Statements

Year Ended

31 December 2008

Presenter -

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

Ref: smg/747922.136

IBDO
BDO Stoy Hayward
Chartered Accountants

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Directors

C S Perry
N Miller
K R Dolliver
B O Orndorff
G R Kreuger

Secretary and registered office

RB Secretariate Ltd, Beaufort House Tenth Floor, 15 St Botolph Street, London, EC3A 7EE

Company number

3547882

Auditors

BDO Stoy Hayward LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex. RH6 0PA

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Principal activities and future developments

The company's principal activity in the period was that of providing digital marketing services for corporate clients. The company provides a full service offering, including strategic consultancy, web site development, creative development, and interactive marketing. The company helps clients use the internet as an integrated online business channel to build one-to-one relationships with their customers – ranging from consumers to business customers, to partners and employees.

Change of name

The company changed its name to Razorfish UK Limited on 6 April 2009.

Review of the business

The profit and loss account is set out on page 6 and shows gross turnover for the year of £22,174,107 (2007 - £19,266,129) and profit for the year before taxation of £2,990,734 (2007 - £2,755,079).

Gross turnover has increased by 15% compared to the previous year. The directors are satisfied with the profitability of the company, although operating profit as a percentage of net turnover has decreased from 19% to 17%. This is mainly due to difficulties controlling margin on certain fixed price projects.

Due to a weak economy in the UK, and based on the first half results and projects in the pipeline, the directors believe that 2009 will show little or no growth in gross turnover, with margins likely to be adversely impacted.

The directors do not recommend the payment of a dividend.

Principal risks and uncertainties

We are subject to risks frequently encountered by companies in the internet marketing and advertising industry. These risks include the need to:

- Attract new clients and maintain current client relationships;
- Achieve effective advertising campaign results for our clients;
- Continue to expand the number of services and technologies we offer;
- Successfully implement our business model, which is evolving;
- Respond to pricing pressure in some of our lines of business;
- Maintain our reputation and build trust with our clients; and
- Identify, attract, retain and motivate qualified personnel.

The loss of a major client or a reduction in a major client's internet advertising or marketing budget could significantly reduce our turnover and profitability.

The website design and development portion of our business performs some services on a fixed fee basis. Because of the complexity of many of these fixed fee engagement, accurately estimating the cost, scope, expectations and duration of a particular fixed fee engagement can be a difficult task, which could impact negatively on profitability.

Charitable and political contributions

During the period the company made charitable contributions of £216 (2007 - £Nil). There were no political contributions.

Directors

The directors of the company during the year were:

C S Perry	
N Miller	
L A Schoemaker	(resigned 28 February 2008)
K M Metzger	(resigned 28 February 2008)
K R Dolliver	(appointed 28 February 2008)
B O Orndorff	(appointed 28 February 2008)
G R Kreuger	(appointed 28 February 2008)

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 and of the profit or loss of the company for that year. 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare 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 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.

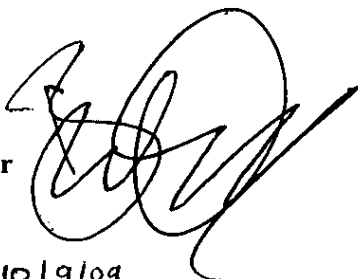
Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board

Director

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Date: 10/9/09.

Independent auditor's report

To the shareholder of Razorfish UK Limited (formerly Avenue A | Razorfish Limited)

We have audited the financial statements of Razorfish UK Limited (formerly Avenue A | Razorfish Limited) for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

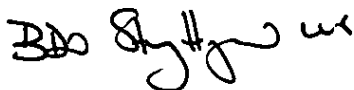
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditor's report (*Continued*)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Gatwick

Date: 21/9/09

Razorfish UK Limited (formerly Avenue A | Razorfish Limited)**Profit and loss account for the year ended 31 December 2008**

	Note	2008 £	2007 £
Gross turnover		22,174,107	19,266,129
Net turnover	2	17,389,882	14,592,982
Cost of sales		10,458,214	8,290,312
Gross profit		6,931,668	6,302,670
Administrative expenses		3,997,655	3,610,602
		2,934,013	2,692,068
Other operating income		-	58,924
Operating profit	3	2,934,013	2,750,992
Interest receivable	6	66,268	26,064
Interest payable	7	(9,546)	(21,977)
Profit on ordinary activities before taxation		2,990,735	2,755,079
Taxation on profit on ordinary activities	8	908,245	880,206
Profit on ordinary activities after taxation		2,082,490	1,874,873

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

There are no movements in shareholders' funds in the current and prior year apart from the profit for the year.

The notes on pages 8 to 17 form part of these financial statements.

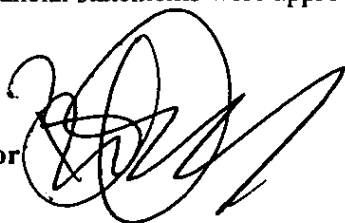
Razorfish UK Limited (formerly Avenue A | Razorfish Limited)

Balance sheet at 31 December 2008

	Note	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Tangible assets	9		464,698		435,985
Current assets					
Debtors-due within one year	11	8,086,101		5,708,415	
Debtors-due after more than one year	11	109,729		129,729	
Total debtors		8,195,830		5,838,144	
Cash at bank and in hand		1,342,785		2,027,963	
		9,538,615		7,866,107	
Creditors: amounts falling due within one year	12	4,628,341		4,997,243	
Net current assets			4,910,274		2,868,864
Total assets less current liabilities			5,374,972		3,304,849
Creditors: amounts falling due after more than one year	13		-		12,367
			5,374,972		3,292,482
Capital and reserves					
Called up share capital	14		100		100
Profit and loss account	15		5,374,872		3,292,382
Shareholder's funds	19		5,374,972		3,292,482

The financial statements were approved by the board of directors and authorised for issue on 10/9/09.

Director



The notes on pages 8 to 17 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Microsoft Inc. and the company is included in consolidated financial statements.

Turnover

Revenue from website development services are derived from either fixed fee consulting contracts or from time and materials consulting contracts. Revenues from fixed fee consulting contracts are recognised as services are rendered using the percentage-of-completion method with progress-to-complete measured using labour hour inputs. Cost estimates on percentage-of-completion contracts are reviewed periodically with adjustments recorded in the period in which the revisions are made. Any anticipated losses on contracts are charged to operations as soon as they are determinable. Billings on uncompleted contracts may be greater than or less than the revenues recognised and are recorded as either accrued income (an asset) or deferred income (a liability). Revenues derived from time and materials consulting contracts are recognised as the services are performed.

Interactive marketing includes online media, search engine, email and analytics services. Fees for online media are earned in three different ways depending on the contractual terms with the client. The majority of revenue is earned based on the value of advertising space purchased on behalf of its clients. The Company recognises this revenue over the period of the campaign at the rate at which the advertising is delivered. Certain contractual agreements with clients are structured such that interactive marketing services are billed on a fixed monthly retainer basis, with revenue being recognised in line with the monthly fee. Revenue can also be earned based on a fixed fee consulting arrangement, which is earned based on the percentage-of-completion method described above.

Online media revenue is recognised under the gross method, which consists of the gross value of the Company's billings to its clients and includes the price of the advertising space that the Company purchases from websites to resell to its clients. To generate revenue under the gross method, the Company purchases advertising space from publisher websites whereby it was the primary obligor to the arrangement and was solely responsible for payment even if the advertising space was not utilised by its clients or funds were not collected from its clients.

Depreciation

Depreciation is provided to write off the cost of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Office equipment	- 20% straight line
Leasehold improvements	- over the term of the lease
Computer equipment	- 33% straight line

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

1 Accounting policies (*continued*)

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to individual stakeholders pension plans are charged to the profit and loss account in the period in which they become payable.

2 Turnover

	2008 £	2007 £
Analysis by geographical market:		
United Kingdom	16,972,000	14,374,954
Europe	5,752	218,028
Rest of the world	412,130	-
	<u>17,389,882</u>	<u>14,592,982</u>

Turnover is wholly attributable to the principal activity of the company.

Included in gross turnover is media space sales of £4,784,225 (2007 - £4,673,147) purchased for customers as part of a wider package of work. Due to the nature of these sales each transaction is performed at virtually zero margin and therefore a net turnover figure has been disclosed in these accounts to reflect the substance of these transactions.

3 Operating profit

	2008 £	2007 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	252,541	164,574
Hire of other assets - operating leases	380,472	375,296
Audit services	23,806	20,892
Exchange differences	61,538	(58,924)
	<u>718,357</u>	<u>501,838</u>

4 Employees

Staff costs (including directors) consist of:

	2008 £	2007 £
Wages and salaries	7,069,919	5,655,604
Social security costs	922,709	616,843
Other pension costs	50,838	27,345
	<u>8,043,466</u>	<u>6,299,792</u>

The average monthly number of employees (including directors) during the year was 140 (2007 - 111).

5 Directors' remuneration

	2008 £	2007 £
Aggregate emoluments and pension contributions	236,654	236,654

The total amount payable to the highest paid director in respect of emoluments was £118,327 (2007 - £118,327).

6 Interest receivable

	2008 £	2007 £
Loans to group companies	44,731	-

7 Interest payable

	2008 £	2007 £
Bank overdraft	3,974	4,716
Loans from group companies	5,572	17,261
	9,546	21,977

8 Taxation on profit on ordinary activities

	2008 £	2007 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	908,245	880,206

The tax assessed for the period is different than the standard rate of corporation tax in the UK. These differences are explained below:

	2008 £	2007 £
Profit on ordinary activities before tax	2,990,735	2,755,079
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007 - 30%)	852,359	826,524
Effect of:		
Expenses not deductible for tax purposes	37,129	22,520
Capital allowances in (excess)/deficit of depreciation	18,002	3,732
Movement on provisions	347	661
Adjustment to tax charge in respect of previous periods	-	26,454
Difference in tax rates	408	315
Current tax charge for period	908,245	880,206

9 Tangible fixed assets

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>				
At 1 January 2008	48,269	259,042	512,265	819,576
Additions	40,648	36,148	204,458	281,254
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	88,917	295,190	716,723	1,100,830
<i>Depreciation</i>				
At 1 January 2008	19,312	129,591	234,688	383,591
Provided for the year	18,714	57,197	176,630	252,541
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	38,026	186,788	411,318	636,132
<i>Net book value</i>				
At 31 December 2008	50,891	108,402	305,405	464,698
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At 31 December 2007	28,957	129,451	277,577	435,985
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The net book value of tangible fixed assets includes an amount of £NIL (2007 - £ 16,073) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £ NIL (2007 - £ 22,732).

10 Fixed asset investments

Subsidiary undertaking

The principal undertakings in which the company's interest at the year end is 20% or more are as follows:

	Proportion of voting rights and ordinary share capital held	Nature of business
DNA Connect Limited	100%	Dormant

The following figures have been extracted from unaudited financial statements for the year ended 31 December 2008:

	Aggregate share capital and reserves		(Loss)/profit for the year	
	2008	2007	2008	2007
	£	£	£	£
DNA Connect Limited	-	-	-	-

11 Debtors

	2008	2007
	£	£
Amounts receivable within one year		
Trade debtors	5,192,673	3,175,544
Amounts owed by group undertakings	1,509,526	-
Prepayments and accrued income	1,383,902	2,532,871
	<u>8,086,101</u>	<u>5,708,415</u>
Amounts receivable after more than one year		
Other debtors	109,729	129,729
	<u>109,729</u>	<u>129,729</u>
Total debtors	<u>8,195,830</u>	<u>5,838,144</u>

12 Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	1,296,396	993,924
Amounts owed to group undertakings	-	520,041
Corporation tax	555,877	622,229
Other taxation and social security	591,909	920,648
Obligations under finance lease and hire purchase contracts	-	6,643
Accruals and deferred income	2,184,159	1,933,758
	<u>4,628,341</u>	<u>4,997,243</u>

13 Creditors: amounts falling due after more than one year

	2008 £	2007 £
Other creditors	-	12,367
	<u>-</u>	<u>12,367</u>

14 Share capital

	2008 £	2007 £
<i>Authorised</i>		
100,000 ordinary 'A' shares of 0.5 pence each	500	500
100,000 ordinary 'B' shares of 0.5 pence each	500	500
	<u>1,000</u>	<u>1,000</u>
	2008 £	2007 £
<i>Allotted, called up and fully paid</i>		
10,000 ordinary 'A' shares of 0.5 pence each	50	50
10,000 ordinary 'B' shares of 0.5 pence each	50	50
	<u>100</u>	<u>100</u>

15 Reserves

	Profit and loss account £
At 1 January 2008	3,292,382
Profit for the year	2,082,490
	<hr/>
At 31 December 2008	5,374,872
	<hr/>

16 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	2008 Land and buildings £	2007 Land and buildings £
Operating leases which expire:		
Within one year	178,693	-
In two to five years	184,840	363,533
	<hr/>	<hr/>
	363,533	363,533
	<hr/>	<hr/>

17 Related party disclosures

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Microsoft Corporation Inc on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements.

18 Ultimate parent company and parent undertaking of larger group

The company's ultimate parent company is Microsoft Corporation Inc., a company incorporated in the United States of America.

Microsoft Corporation Inc's financial statements are available at www.microsoft.com

19 Reconciliation of movements in shareholders' funds

	2008 £	2007 £
Profit for the year	2,082,490	1,874,873
Opening shareholders' funds	3,292,482	1,417,609
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Closing shareholders' funds	5,374,972	3,292,482
	<hr/>	<hr/>