

Registered number: 06331310

Facebook UK Limited

**Annual report and financial statements
for the year ended 31 December 2016**

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Facebook UK Limited

Company information

Directors	S H Crehan D W Kling S Taylor
Registered number	06331310
Registered office	10 Brock Street Regent's Place London NW1 3FG
Auditors	Ernst & Young Chartered Accountants Harcourt Centre Harcourt Street Dublin 2 Ireland

Facebook UK Limited

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Facebook UK Limited

Strategic report for the year ended 31 December 2016

The directors present their strategic report on the company for the year ended 31 December 2016.

Business review and future developments

The principal activity of the company in the year under review was that of providing sales support, marketing services and engineering support to the Facebook group and to act as a reseller of advertising services to larger UK customers. The company's function expanded to include the advertising reseller business in respect of large UK customers on 1 April 2016. The company is positioned to continue to expand in the future.

The company has continued to grow during the year, resulting in an increased headcount of 1,065 at the year end.

Revenue for the year amounted to £842,429,955 (2015: £210,762,610), which is an increase of £631,667,345 on the value of services provided in 2015. This increase was attributable to the commencement of advertising reseller services from 1 April 2016. Profit after tax has increased from a £41,169,900 loss in 2015 to a £55,838,090 profit in 2016 due to the commencement of reseller activities.

Principal risks and uncertainties

The principal risks and uncertainties which the company are confronted with are limited to the arrangements it has in place with group companies. Such arrangements could be impacted in the event of an emergence of rival social networks, security and privacy breaches, global recession reducing online advertising spend, user engagement and attracting talent.

Key financial and other performance indicators

Key financial and other performance indicators that are focused on by management include:

- Overheads
- Cost control
- New industry developments
- Advertising revenue

The directors are satisfied with the performance of the company during the year with regard to the indicators set out above.

By order of the board.



S H Crehan
Director

Date: 22/9/17

Facebook UK Limited

Directors' report for the year ended 31 December 2016

The directors present their report and the audited financial statements of the company for the year ended 31 December 2016.

Business review and future developments

The business review and future developments section can be found in the strategic report on page 1.

Results and dividends

The profit for the year, after taxation, amounted to £55,838,090 (2015: loss £41,169,900).

No dividends will be distributed for the year ended 31 December 2016 (2015: £nil).

Directors

The directors who held office during the year, and up to the date of signing the financial statements are given below:

J S Athwal (resigned 1 February 2017)
S H Crehan
D W Kling
S Taylor (appointed 30 May 2017)

Financial instruments

The company's financial instruments at the statement of financial position date included cash, liquid resources, amounts owed by/to group undertakings and other financial instruments such as trade creditors and trade debtors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are as follows:

- **Market risk**
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise a number of types of risk including interest rate risk and currency risk.
- **Interest rate risk**
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The company has no liabilities carrying interest rates, and as such management does not consider this to be a risk to the company.
- **Currency risk**
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors has a currency policy in place and the exposure to currency risk is monitored on an ongoing basis.
- **Credit risk**
Credit risk is the risk that a counter party will not meet its objectives under a financial instrument or customer contract, leading to financial risk. The Board of Directors has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Facebook UK Limited

Directors' report (continued) for the year ended 31 December 2016

Financial instruments (continued)

- **Liquidity risk**
Liquidity risk is the risk that the company will encounter in realising assets or otherwise raising funds to meet commitments.

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the audited financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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
- 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 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 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.

Employees

The company provides regular information to employees through quarterly company meetings where employees can direct questions on any company topic. In addition, there are specific business updates across the organisation, which generally include open questions and answers from employees. Facebook also consults with employees through employee resource groups and focus groups in response to feedback captured through regular employee surveys. Moreover, eligible employees participate in the company's performance by enjoying (as part of their compensation) the opportunity to invest in restricted ordinary shares (RSU's) issued by Facebook UK Limited's ultimate parent undertaking, Facebook, Inc.

All new joiners to Facebook are given access to the employee handbook as part of the on-boarding process. The handbook includes the Facebook Equal Opportunities and Harassment Policy which applies to the full life cycle of an employee - including recruitment, training, promotion and all other aspects of employment. The policy also includes the company's commitment to providing reasonable adjustments for disabled employees throughout the whole employment lifecycle, including employees who may become disabled while employed by the company.

Facebook UK Limited

Directors' report (continued) for the year ended 31 December 2016

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed 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 ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditor

In accordance with section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and, Ernst & Young will therefore continue in office.

This report was approved by the board and signed on its behalf.



S H Crehan

Director

Date:

22/9/17

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FACEBOOK UK LIMITED

We have audited the financial statements of Facebook UK Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 Strategic Report and Directors' 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 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FACEBOOK UK LIMITED
(Continued)**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

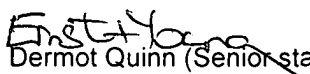
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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
- the financial statements are not in agreement with the accounting records, 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; or


Dermot Quinn (Senior statutory auditor)
for and on behalf of Ernst & Young
Chartered Accountants and Statutory Audit Firm

Dublin

Date: 28 September 2017

Facebook UK Limited

Statement of comprehensive income for the year ended 31 December 2016


	Note	2016 £	2015 £
Turnover	4	842,429,955	210,762,610
Cost of sales		(457,818,355)	(8,243,001)
Gross profit		384,611,600	202,519,609
Administrative expenses		(326,090,463)	(255,009,660)
Operating profit/(loss)	5	58,521,137	(52,490,051)
Interest receivable and similar income	7	26,625	26,459
Interest payable and similar charges	8	(132,590)	(28,371)
Profit/(loss) on ordinary activities before tax		58,415,172	(52,491,963)
Tax on profit/(loss) on ordinary activities	9	(2,577,082)	11,322,063
Profit/(loss) for the year		55,838,090	(41,169,900)
Total comprehensive income/(expense) for the year		55,838,090	(41,169,900)

The notes on pages 10 to 25 form part of these financial statements.

Statement of financial position as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Intangible assets	10	111,693	109,044
Tangible assets	11	32,483,533	26,510,837
		<u>32,595,226</u>	<u>26,619,881</u>
Current assets			
Debtors	12	382,757,520	63,293,817
Cash at bank and in hand		61,998,273	10,970,414
		<u>444,755,793</u>	<u>74,264,231</u>
Creditors: amounts falling due within one year	13	(276,761,572)	(38,184,824)
Net current assets		<u>167,994,221</u>	<u>36,079,407</u>
Total assets less current liabilities		<u>200,589,447</u>	<u>62,699,288</u>
Creditors: amounts falling due after more than one year	14	(4,618,965)	(5,003,324)
Provisions for liabilities			
Other provisions	16	(6,105,101)	(2,124,910)
Net assets		<u>189,865,381</u>	<u>55,571,054</u>
Capital and reserves			
Called up share capital	17	1,000	1,000
Retained earnings		189,864,381	55,570,054
Total equity		<u>189,865,381</u>	<u>55,571,054</u>

The financial statements on pages 7 to 25 were approved and authorised for issue by the board of directors and were signed on its behalf by


S H Crehan
Director

Date: 22/9/17

The notes on pages 10 to 25 form part of these financial statements.

Facebook UK Limited

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2016	1,000	55,570,054	55,571,054
Profit for the financial year, representing total comprehensive income	-	55,838,090	55,838,090
Deferred tax movements	-	475,823	475,823
Reserve credit for share based payment plan	-	77,980,414	77,980,414
At 31 December 2016	1,000	189,864,381	189,865,381

Statement of changes in equity for the year ended 31 December 2015

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2015	1,000	16,061,124	16,062,124
Loss for the financial year, representing total comprehensive expense	-	(41,169,900)	(41,169,900)
Deferred tax movements	-	9,639,671	9,639,671
Reserve credit for share based payment plan	-	71,039,159	71,039,159
At 31 December 2015	1,000	55,570,054	55,571,054

The notes on pages 10 to 25 form part of these financial statements.

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Notes to the financial statements for the year ended 31 December 2016

1. General information

Facebook UK Limited provides sales support, marketing services and engineering support to the Facebook group and acts as a reseller of advertising services to larger UK customers.

The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is 10 Brock Street, Regent's Place, London, NW1 3FG.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the year);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B to D (additional comparative information);
 - 111 (cash flow statement information);
 - 134 to 136 (capital management disclosures);
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but not yet effective);

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation);
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7, 'Financial Instruments: Disclosures'; and
- Paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of assets.

For the purposes of FRS 101 reduced disclosure exemptions, equivalent disclosures are included in the publicly available consolidated financial statements of Facebook, Inc., the ultimate parent of the company and the smallest and largest group in which the company is consolidated into. The consolidated financial statements of Facebook Inc. are available to the public and can be downloaded free of charge from the company's investor relations website, located at Investor.fb.com. The equivalent disclosures for IFRS 7 are included within the Form 10-K document that contains the publicly available financial statements of Facebook, Inc.

2.2 Turnover

Turnover comprises the fair value of the consideration receivable for the sale of services in the ordinary course of the company's activities. Revenue is shown net of value-added tax.

The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

2.3 Operating leases

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term.

2.4 Foreign currencies

(i) Functional and presentational currency

The company's functional and presentational currency is the Pound sterling.

(ii) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the statement of financial position date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of comprehensive income.

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Notes to the financial statements for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.5 Interest receivable

Interest income is recognised in the statement of comprehensive income using the effective interest method.

2.6 Interest payable

Interest payable is recognised in the statement of comprehensive income over the term of the debt using the effective interest method.

2.7 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.8 Intangible assets

Intangible assets are initially recognised at cost and subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is provided on the following bases:

Computer software	-	33 % on cost
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Amortisation is charged to 'administrative expenses' in the statement of comprehensive income.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Tangible assets and depreciation

Tangible assets are recognised at cost and subsequently stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value.

The estimated useful lives range as follows:

Leasehold improvements	- Straight line over period of the lease
Fixtures & fittings	- 20% on cost
Plant & machinery	- 33% on cost
Computer equipment	- 33% on cost

Assets in the course of construction are not subject to depreciation as the assets are not in use.

Depreciation is charged to 'administrative expenses' in the statement of comprehensive income.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if there is an indication of a significant change since the last end of reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.11 Financial instruments

(i) Financial assets

Basic financial assets, including amounts owed by group undertakings, trade debtors, other debtors and accrued income are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method and at the end of each reporting period are assessed for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

Accrued income represents unbilled revenue at 31 December 2016.

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings, are initially recognised at transaction price.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12 Debtors

Amounts owed by group undertakings, trade debtors and other debtors are measured initially at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, less any impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, at bank and deposits held at call with banks.

2.14 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as creditors due after more than one year.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.15 Provisions for liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation, unless the impact of discounting is immaterial. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Called up share capital

Ordinary shares are classified as equity.

2.17 Share based payments

Facebook, Inc. (the "ultimate holding company") operates a share-based compensation plan. Employees of the company receive remuneration in the form of restricted ordinary shares ('RSUs') of its ultimate holding company as consideration for services rendered.

The fair value of the employee services received in exchange for the grant of the RSUs is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted.

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the ultimate holding company revises its estimates of the number of RSUs that are expected to vest based on the non-market vesting conditions. The company recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income.

When the RSUs are exercised, the ultimate holding company issues new shares.

The grant of RSUs by the ultimate holding company to the employees of the company is treated as equity-settled, with a corresponding increase in equity as a contribution from the ultimate holding company.

2.18 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Taxation

Determining income tax provisions involves judgements on the tax treatment of certain transactions. Deferred tax is recognised on deductible temporary differences where it is probable that there will be taxable income against which these can be offset. See note 9.

(ii) Useful economic lives of intangible and tangible assets

The annual amortisation and depreciation charge for intangible and tangible assets respectively is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 10 and 11 for the carrying amount of the intangibles and tangibles respectively, and notes 2.8 and 2.10 for the useful economic lives for each class of assets.

(iii) Provisions

The company makes an estimate of the present value of the dilapidation provision which relates to estimated costs to be incurred to return the currently occupied leased premises to a condition equivalent to that prior to occupation. The company assesses the valuation at each reporting date. See note 16.

4. Turnover

Turnover is the value of both the support services provided to the Facebook group and advertising services, net of value added tax.

An analysis of turnover by geographical market is not disclosed as the directors are of the opinion that it would be seriously prejudicial to the interests of the company.

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Notes to the financial statements for the year ended 31 December 2016

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):

	2016 £	2015 £
Loss on disposal of fixed assets	4,744	11,677
Depreciation of tangible fixed assets	6,349,536	3,498,055
Amortisation of intangible assets	47,992	13,631
Difference on foreign exchange	(4,946,501)	258,104
Operating lease rentals	17,409,697	9,269,676
Auditor's remuneration	17,000	16,000

The directors of the company, during the current and previous year, were also senior executives of, and were remunerated by other Facebook entities and received no remuneration for services to this company.

6. Staff costs

Staff costs were as follows:

	2016 £	2015 £
Wages and salaries	104,094,972	78,040,274
Social security costs	20,431,511	13,367,564
Pension costs (see note 19)	4,484,146	2,977,091
Share based payments charge (see note 18)	77,980,414	71,039,159

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Engineering team	537	415
Sales support and marketing team	423	267

7. Interest receivable and similar income

	2016 £	2015 £
Bank interest receivable	26,625	26,459

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

8. Interest payable and similar charges

	2016 £	2015 £
Unwinding of discount on provision (see note 16)	<u>132,590</u>	<u>28,371</u>

9. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on profit/(loss) for the year	<u>5,101,427</u>	4,168,609
Total current tax	<u>5,101,427</u>	<u>4,168,609</u>
Deferred tax		
Current year	<u>(2,655,751)</u>	(16,507,004)
Effects of changes in tax rates	<u>131,406</u>	1,016,332
Total deferred tax	<u>(2,524,345)</u>	<u>(15,490,672)</u>
Taxation on profit/(loss) on ordinary activities	<u>2,577,082</u>	<u>(11,322,063)</u>

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £	2015 £
Profit/(loss) on ordinary activities before tax	<u>58,415,172</u>	<u>(52,491,963)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	<u>11,683,034</u>	<u>(10,627,825)</u>
Effects of:		
Expenses not deductible for tax purposes	<u>12,654,465</u>	41,032,591
Additional expenses deductible for tax purposes	<u>(21,891,823)</u>	(16,027,848)
Movement in unrecognised deferred tax	-	(24,682,649)
Effects of changes in tax rates	<u>131,406</u>	(1,016,332)
Total tax charge/(credit) for the year	<u>2,577,082</u>	<u>(11,322,063)</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

9. Taxation (continued)

Factors that may affect future tax charges

A change in the UK Corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the statement of financial position date its effects are not included in these financial statements.

10. Intangible assets

	Computer software £
Cost	
At 1 January 2016	122,675
Additions	50,641
At 31 December 2016	<u>173,316</u>
Amortisation	
At 1 January 2016	13,631
Charge for the year	47,992
At 31 December 2016	<u>61,623</u>
Net book value	
At 31 December 2016	<u>111,693</u>
At 31 December 2015	<u>109,044</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

11. Tangible assets

	Leasehold improvements £	Plant & machinery £	Fixtures & fittings £	Computer equipment £	Assets in the course of construction £	Total £
Cost or valuation						
At 1 January 2016	16,578,613	4,903,382	891,956	1,064,945	8,205,634	31,644,530
Additions	4,914,582	883,028	65,304	234,130	6,263,170	12,360,214
Disposals	-	(28,432)	(40,891)	(44,573)	-	(113,896)
Transfers between classes	9,860,879	1,019,321	645,116	33,427	(11,558,743)	-
At 31 December 2016	31,354,074	6,777,299	1,561,485	1,287,929	2,910,061	43,890,848
Depreciation						
At 1 January 2016	2,821,231	1,937,310	228,737	146,415	-	5,133,693
Charge for the year	3,858,980	1,816,595	273,211	400,750	-	6,349,536
Disposals	-	(28,432)	(40,891)	(6,591)	-	(75,914)
At 31 December 2016	6,680,211	3,725,473	461,057	540,574	-	11,407,315
Net book value						
At 31 December 2016	24,673,863	3,051,826	1,100,428	747,355	2,910,061	32,483,533
At 31 December 2015	13,757,382	2,966,072	663,219	918,530	8,205,634	26,510,837

12. Debtors

	2016 £	2015 £
Trade debtors	203,146,849	-
Amounts owed by group undertakings	145,905,289	30,180,668
Other debtors	-	4,244,889
Prepayments and accrued income	5,574,871	3,737,917
Deferred taxation (see note 15)	28,130,511	25,130,343
	382,757,520	63,293,817

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

12. Debtors (continued)

Trade debtors are stated after provisions for impairment of £2,888,774 (2015: £nil).

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13. Creditors: amounts falling due within one year

	2016 £	2015 £
Trade creditors	1,810,153	2,504,626
Amounts owed to group undertakings	196,497,984	7,299,875
Corporation tax	2,675,664	3,491,030
Other taxation and social security	42,362,893	5,617,694
Accruals and deferred income	33,414,878	19,271,599
	<u>276,761,572</u>	<u>38,184,824</u>

Amounts owed to group undertakings are unsecured, repayable on demand and carry no interest.

14. Creditors: amounts falling due after more than one year

	2016 £	2015 £
Amounts owed to group undertakings	1,261,737	1,261,737
Accruals and deferred income	3,357,228	3,741,587
	<u>4,618,965</u>	<u>5,003,324</u>

Amounts owed to group undertakings are unsecured and interest free. Whilst there is no fixed repayment date, repayment of this balance will not be sought within twelve months of the statement of financial position date.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

15. Deferred taxation

	2016 £	2015 £
At beginning of year	25,130,343	-
Credited to the profit and loss account	2,524,345	15,490,672
Credited to the statement of changes in equity	475,823	9,639,671
At end of year	28,130,511	25,130,343

The deferred taxation balance is made up as follows:

	2016 £	2015 £
Deductible temporary differences	28,130,511	25,130,343

The deferred tax asset mainly relates to unvested employee RSUs which are subject to a UK corporation tax deduction on vesting.

The deferred tax asset of £28,130,511 (2015: £25,130,343) has been recognised on the basis it is probable there will be sufficient future taxable profits against which the deductible temporary differences can be utilised.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

16. Provisions

	Dilapidations £
At 1 January 2016	2,124,910
Additions	3,847,601
Unwinding of discount (see note 8)	132,590
At 31 December 2016	6,105,101

Dilapidations

The dilapidations provision relates to the estimated costs to be incurred to return the currently occupied leased premises to a condition equivalent to that prior to occupation. Any reconstruction work would occur at the end of the leases in 2023 and 2026. Amounts charged to the statement of comprehensive income in the year are included within administrative expenses.

17. Share capital

	2016 £	2015 £
Allotted, called up and fully paid 1,000 Ordinary shares of £1 each	1,000	1,000

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

18. Share based payments

At 31 December 2016 Facebook, Inc. had one active stock based employee compensation plan (the 2012 Equity Incentive Plan ("the Plan")) under which new awards may be granted. Awards may include incentive share options, non statutory share options, share purchase rights or restricted ordinary shares. The company has granted only restricted ordinary shares ('RSUs') to employees of Facebook UK Limited. RSUs may be settled in cash or equity however the company intends to equity settle all RSUs. The vesting condition of the RSUs is that the employees must remain in employment until the initial vesting event.

The Plan permits the grant of RSUs over ordinary shares (class B common stock) in Facebook, Inc. The per-share exercise price of RSUs granted is generally nil.

The fair value of each RSU is estimated on the date of grant as the share price at the date of grant.

RSUs are granted to employees under the Plan upon hire, or based on performance criteria established by management. RSUs are independent of ordinary share options and are subject to forfeiture if employment terminates prior to the release of the restrictions.

During the vesting period, ownership of the shares cannot be transferred. Once shares are issued pursuant to the terms of an RSU agreement, these shares have the same dividend and voting rights as other ordinary shares.

A reconciliation of movements in the number of RSUs outstanding are as follows:

	2016 RSUs Number	2015 RSUs Number
Outstanding at 1 January	3,535,629	3,974,890
Granted	1,586,444	1,503,040
Movements*	(362,782)	134,806
Settled	(1,474,532)	(1,669,199)
Forfeited	(357,507)	(407,908)
Outstanding at 31 December	2,927,252	3,535,629

*This accounts for the net change in outstanding awards due to employee transfers across territories.

The fair value of RSUs granted in the year was £84.96 (US\$115.23) (2015: £54.86 (US\$84.43)).

The weighted average share price during the year for RSUs settled was £86.11 (US\$117.04) (2015: £57.96 (US\$88.77)).

The total charge for the year relating to employee share based payment plans was £77,980,414 (US\$115,908,048) (2015: £71,039,159 (US\$113,861,827)).

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2016

19. Pension commitments

The company operates a defined contributions pension scheme. The cost of contributions to the defined contribution scheme amounts to £4,484,146 (2015: £2,977,091). There was an amount outstanding at the year end totalling £148,594 (2015: £129,481).

20. Commitments under operating leases

At 31 December 2016, the company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than 1 year	14,204,704	12,521,486
Later than 1 year and not later than 5 years	83,102,514	58,107,701
Later than 5 years	210,003,278	224,031,480
	<u>307,310,496</u>	<u>294,660,667</u>

21. Immediate parent undertaking and ultimate controlling party

The company's immediate parent undertaking is Facebook Global Holdings II, LLC, a company registered in Delaware, USA. Facebook Global Holdings II, LLC does not prepare publicly available consolidated financial statements.

The company's ultimate parent undertaking is Facebook, Inc., a company registered in Delaware, USA. Facebook, Inc. prepares consolidated financial statements which are publicly available at investor.fb.com.