

eBay (UK) Limited

Registered number: 03726028

eBay (UK) Limited

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

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eBay (UK) Limited

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

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eBay (UK) Limited

Company information

For the year ended 31 December 2016

Directors: Alec Latimer, Rob Hattrell and Pierre Dunoyer de Segonzac

Company secretary: Taylor Wessing Secretaries Limited

Registered office: 5 New Street Square
London
United Kingdom
EC4A 3TW

Registered number: 03726028 (England and Wales)

Independent auditors: PricewaterhouseCoopers LLP
Chartered Accountant and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

eBay (UK) Limited

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their strategic report on eBay (UK) Limited ("the Company") for the year ended 31 December 2016.

Review of the Business

eBay (UK) Limited ("The Company"), is a wholly owned subsidiary of eBay International AG, incorporated in Switzerland with the ultimate parent being eBay Inc., a global internet company incorporated in the United States of America ("US"), which offers an internet based personal trading community.

The Company's profit for the financial year amounted to £6,050,000 (2015: 6,995,000). The company has continued to focus on UK marketplace growth, as well as the advertising business across Europe by means of its overseas branches in France, Germany, Italy, and Belgium. The Company has also established an Australian branch to support the advertising business in that market and to work towards achieving the Group's mission of creating the world's leading e-commerce company.

The net assets of the Company grew to a total of £54,709,000 (2015: £47,329,000). The financial position of the Company is set out in the statement of financial position on page 10.

Key Performance Indicators


The Company's main challenges and opportunities will be linked to analysis using key performance indicators and to the business drivers of eBay Inc., the ultimate parent. Details of the business review and strategic plans of eBay Inc. are to be found in its Annual Report and other announcements (<http://investor.ebay.com>).

PRINCIPAL RISKS AND UNCERTAINTIES

As part of the Company's revenues are generated from the parent company on a cost plus basis, the financial risks and uncertainties faced by operating a business establishment in the UK are assumed by the parent company.

The services provided to the parent company are in support of the 'Marketplaces' business segment of the eBay Group. The development and performance of the company is therefore closely linked to the business plans and strategies set by eBay Inc. for this business segment.

ON BEHALF OF THE BOARD

 Date: 11/09/17

Alec Latimer – Director

eBay (UK) Limited

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their annual report with the audited financial statements of eBay (UK) Limited for the year ended 31 December 2016.

Principal activities

The principal activity of the Company in the year under review is to provide services to eBay International AG by recommending market penetration and advertising strategies for the UK internet marketplace and related third party advertising sales in the UK, Germany, France, Italy, Belgium and Australia.

Fair review of the development and the performance of the business

In September 2014, the Board of Directors of eBay Inc., following a strategic review of the company's growth strategies and structure decided to separate the company's eBay and PayPal businesses into independent publicly traded companies in July 2015. Creating two standalone businesses best positions eBay and PayPal to capitalise on their respective growth opportunities in the rapidly changing global commerce and payments landscape, and is the best path for creating sustainable shareholder value. The separation completed on July 17th 2015. The company will continue to provide services to its parent company in pursuance of the eBay Group's strategy for the UK marketplace.

During the fourth quarter of 2016, we began the process of realigning our legal structure, subsequent to the distribution of PayPal Holdings, Inc., to better reflect how we manage and operate our platforms. We considered many factors in effecting this realignment, including foreign exchange exposures, long-term cash flows and cash needs of our platforms, capital allocation considerations and the associated tax effects. The realignment is expected to extend into 2018 and primarily impact our international entities. There is no impact on 2016 financials of the eBay (UK) Limited.

Future Developments

The company will continue to provide services to its parent company in pursuance of the eBay Group's strategy for the UK Marketplace.

Employee Involvement

During the year, the policy of providing employees with information about the company has been continued through internal media methods in which employees have also been encouraged to present their suggestions and views on the Company's performance. Employees are encouraged to invest in the Company through participation in an employee stock purchase plan so that they may share in the success and growth of the Company.

Dividends

The directors recommend the payment of a dividend from 2016 earnings amount of £12,000,000 (2015: nil).

Financial Risk Management

The Company operations expose it to a number of financial risks that include but not limited to credit risk, foreign currency risk and interest rate risk. The Company does not engage in activities which expose it to risks in connection with complex financial instruments, and the directors do not use sophisticated performance indicators to manage the business. The Group's Enterprise Risk Management framework is designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems and processes.

Credit Risk

Financial assets that potentially subject the company to concentrations of credit risk principally consist of cash at bank and debtors. The company's cash is placed with quality financial institutions. The company's exposure to debtor risk is principally concentrated in the intra-group debt with the immediate parent company arising from the charges due under the services agreement. In relation to third party debtors the company has implemented policies that require appropriate credit checks on potential customers before new accounts are accepted.

Foreign Currency and Interest Rate Risk

The directors consider there is a low risk from foreign currency transactions, the amount of exposure to any individual counterparty is limited, and assessed continually. The Company's operating income and cash flows are substantially independent of changes in market interest rates. Due to the limited risk exposure the company does not have a specific hedging policy with respect to foreign currency exchange and interest rate risk.

Post Balance Sheet Events

There were no significant events affecting the Company since year end.

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016
Statement of directors' responsibilities

Statement of directors' responsibilities

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors


The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Directors

The directors who held office throughout the financial year and up to the date of signing of the financial statements, unless otherwise noted, are as follows:

Alec Latimer (Appointed 14 April 2014)
Pierre Dunoyer De Segonzac (Appointed 24 January 2017)
Robert John Hattrell (Appointed 10 March 2017)
Tanya Lawler (resigned 16 November 2016)

ON BEHALF OF THE BOARD

 Date: 11/09/17
Alec Latimer – Director

Independent auditors' report to the members of eBay (UK) Limited

Report on the financial statements

Our opinion

In our opinion, eBay UK Limited's financial statements (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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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:

Independent auditors' report to the members of eBay (UK) Limited (continued)

- 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Leighton Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

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eBay (UK) Limited

STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	4	200,473	185,786
Cost of sales		<u>(192,865)</u>	<u>(177,809)</u>
Operating profit	5	7,608	7,977
Finance income	8	51	85
Finance costs	8	<u>(9)</u>	<u>-</u>
Profit before taxation		7,650	8,062
Income tax expense	9	(1,600)	(1,067)
Profit for the financial year		6,050	6,995
Other comprehensive expense for the year: items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		2,054	(433)
Deferred tax charged to equity	9	<u>26</u>	<u>(580)</u>
Total comprehensive income for the year		<u>8,130</u>	<u>5,982</u>

The above results were derived from continuing operations. The notes on pages 12 to 27 form an integral part of these financial statements

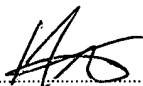
eBay (UK) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	10	3,462	2,556
Deferred income tax asset		<u>3,513</u>	<u>3,369</u>
		6,975	5,925
Current assets			
Trade and other receivables	11	47,517	50,344
Trade and other receivables amounts falling due after more than one year	11	25	43
Cash and cash equivalents		<u>26,213</u>	<u>12,582</u>
		73,755	62,969
Creditors: amounts falling due within one year	12	<u>(25,701)</u>	<u>(21,243)</u>
Net current assets		<u>48,054</u>	<u>41,726</u>
Total assets less current liabilities		<u>55,029</u>	<u>47,651</u>
Creditors: amounts falling due after more than one year	13	(202)	(204)
Provisions for liabilities	14	(118)	(118)
Net assets		<u>54,709</u>	<u>47,329</u>
Equity			
Called up share capital	16	2,451	2,451
Share Premium account		6,853	6,853
Retained earnings		44,188	38,862
Foreign currency translation reserve		1,217	(837)
Total shareholders' funds		<u>54,709</u>	<u>47,329</u>

The notes on pages 12 to 27 form an integral part of these financial statements. The financial statements on pages 9 to 27 were approved by the board of directors on and were signed on its behalf by:

 Date: 11/09/17

Alec Latimer – Director

eBay (UK) Limited (Registered number: 0372602)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Called up share capital £'000	Share premium account £'000	Capital contributions £'000	Retained Earnings £'000	Foreign currency translation reserve £'000	Total shareholders' funds £'000
At 1 January 2015		2,451	6,853	-	32,895	(404)	41,795
Equity contributed by parent under equity incentive plans	18	-	-	8,115	-	-	8,115
Payments to parent for intrinsic value of share incentives exercised		-	-	(9,143)	-	-	(9,143)
Share based compensation excess recharge	18	-	-	1,028	(1,028)	-	-
Profit for the Financial Year		-	-	-	6,995	-	6,995
Currency Translation		-	-	-	-	(433)	(433)
At 31 December 2015		2,451	6,853	-	38,862	(837)	47,329
Equity contributed by parent under equity incentive plans	19	-	-	9,259	-	-	9,259
Payments to parent for intrinsic value of share incentives exercised		-	-	(9,983)	-	-	(9,983)
Share based compensation excess recharge	19	-	-	724	(724)	-	-
Profit for the Financial Year		-	-	-	6,050	-	6,050
Currency Translation		-	-	-	-	2,054	2,054
At 31 December 2016		2,451	6,853	-	44,188	1,217	54,709

eBay (UK) Limited

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

1. General information

eBay (UK) Limited ("the Company") provides services to eBay International AG by recommending market penetration and advertising strategies for the UK internet marketplace and related third party advertising sales in the UK, Germany, France, Italy, Belgium and Australia.

The company is a private company and is incorporated and domiciled in the UK. The address of its registered office is New street square 5 London, United Kingdom.

2. Summary of significant accounting policies

The significant accounting policies adopted by the Company are as follows:

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the company has undergone transition from previously extant UK Generally Accepted Accounting Principles to FRS 101 as issued by the Financial Reporting Council for all years presented. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements.

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- 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 is not yet effective)
- 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.
- IAS 7 'Statement of cash flows'. A cash flow statement has not been presented'
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position
 - 134-136 (capital management disclosures)

The principal accounting policies which have been applied consistently are set out below:

Revenue

Revenue represents the revenue excluding value added tax, from the provision of services to eBay International AG and is recognised in line with performance under the underlying contract.

Advertising revenue is recognised at the point when the service is delivered. Advertising revenues on contracts are recognised as "impressions" (i.e. the number of times that an advertisement appears in pages viewed by users of our websites) are delivered, or as "clicks" (which are generated each time users on our websites click through our advertisements to an advertiser's designated website) are provided to advertisers. Revenues related to fees for listing items on our classified websites are recognised over the estimated period of the classified listing.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Summary of significant accounting policies (continued)

Cost of sales

Cost of sales includes all the services, salaries, depreciation and other operating costs arose from the principal activity of the company.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Financial assets

The company classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Depreciation is provided on all tangible fixed assets to write off the cost less estimated residual value over an asset's estimated useful life on a straight-line basis. Fixed assets are depreciated at the following rates:

Computer equipment	-33% per annum
Short leasehold property improvements	-over 5 years or over the term of the lease
Office furniture and equipment	-33% per annum

The gross capitalised cost of the asset includes its cost plus the essential costs incurred to bring the asset to its intended use. Any related costs incurred after the asset's acquisition, such as additions, improvements, or replacements, are added to the asset's cost if they provide future service potential.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Summary of significant accounting policies (continued)

Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Current and Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, 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 balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with 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 tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred Taxation

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax assets may arise in respect of share-based remuneration. For accounting purposes, the value of share options granted to employees is charged to the profit and loss account over the vesting period of the options. For taxation purposes, a deduction against taxable profit is only allowable when the options are exercised by the employees. It is this timing difference that creates the potential deferred tax asset.

In determining whether a potential deferred tax asset in respect of share options should be recognised or not, the directors examine, on an annual basis, the likelihood of a future taxable deduction being available to the company in relation to the share options outstanding at the end of the year. This examination takes into consideration a range of factors including the current eBay Inc. share price and the range of exercise prices on the outstanding share options. Where a future tax deduction is considered likely, the directors also examine whether it is possible to accurately measure the value of such a deduction.

Where the directors consider that it would be inappropriate to recognise a deferred tax asset in respect of share options, either because a future tax deduction is considered unlikely, or because it is considered impracticable to value accurately, no such asset will be recognised. Instead, the best estimate of the potential tax asset will be disclosed in the notes to the financial statements.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Summary of significant accounting policies (continued)

Foreign currency translation

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the rate at the date of the transaction. All differences on exchange are taken to the profit and loss account.

The exchange rate used to translate the balances of the branches in Europe and Australia to GBP-denominated balances into Euro and Australian Dollar as at the balance sheet date is as follows:

31 December 2016		31 December 2015	
Euro	GBP	Euro	GBP
1.0000	0.85316	1.0000	0.73575
AUD	GBP	AUD	GBP
1.0000	0.58639	1.0000	0.49164

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Any rent free period is amortised over the period of the lease.

Grant

Government grant receivables in respect of employment costs are credited to the income statement to match the related expense.

Pensions

The Company operates a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The employer contributions charged to profit and loss account represents the amounts contracted as due in respect of the financial year.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Summary of significant accounting policies (continued)

Provisions

Provisions for environmental restoration, restructuring costs and legal claims 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 has been reliably estimated. Reorganisation provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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. The increase in the provision due to passage of time is recognised as interest expense.

Sabbatical program

The Company has a sabbatical programme in place under which eligible employees earn a right to a four week sabbatical after 5 years of full employment with the company. The related expense is recorded during the period the employee is required to work. The accrual is reduced by an estimated employee turnover rate.

Employee benefits

The company operates a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The employer contributions charged to profit and loss account represents the amounts contracted as due in respect of the financial year.

Share based payments

The company operates a number of equity-settled, share-based compensation plans, under the company receives services from employees as consideration for equity instruments (options) of ultimate parent. The awards are granted by ultimate parent and the company has no obligation to settle the awards. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. A credit is recognised directly in shareholders' funds. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save). Non-market performance and service conditions are included in assumptions about the number of options 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. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised the company is recharged the options' original fair value as of the grant date from the ultimate parent. This recharge is accounted for as a deduction from shareholders' funds

3. Critical accounting estimates and judgments

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. There are no critical judgements estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

4 Revenue

Revenue and profit on ordinary activities before income tax derive from the principal activities of the company, being advertising sales and support. Revenue comprises the following geographical areas by destination. Revenue by origin is not materially different from revenue by destination.

	2016	2015
	£'000	£'000
UK	84,033	88,861
Europe	100,834	83,574
Australia	15,606	13,351
Total	<u>200,473</u>	<u>185,786</u>

5 Operating profit

	2016	2015
	£'000	£'000
The operating profit is stated after charging/(crediting):		
Audit of the entity financial statements	58	55
Auditors' remuneration – Other services	-	5
FX (gains)/losses on trade receivables	(2,163)	704
Depreciation - owned assets	1,571	1,643
Loss on disposal of fixed Assets	1	-
Operating lease charges land and building	3,610	3,527

6 Staff costs

	2016	2015
	£'000	£'000
Staff costs consist of:		
Wages and salaries	38,436	38,537
Social security costs	5,176	3,935
Other pension costs	2,066	1,799
Stock-based compensation	9,259	8,115
Total staff costs	<u>54,937</u>	<u>52,386</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

6 Staff costs (continued)

The average monthly number of employees per activity during the financial year (including paid directors) was as follows:

	2016	2015
By activity:	Number	Number
Management	54	38
Administration and operations	357	334
Total	411	372

7 Directors' remuneration

Directors' remuneration:

	2016	2015
	£'000	£'000
Aggregate emoluments excluding pension contributions	780	596
Aggregate company contributions to the stakeholder pension plan for the directors	46	27
	826	623

Directors' share options:

	2016	2015
Number of directors who exercised share options	None	None
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	3	3
Number of directors to whom retirement benefits were accruing under the stakeholder pension plan	3	3

Highest paid director:

	2016	2015
	£'000	£'000
Aggregate emoluments excluding pension contributions	476	330
Company contributions to the stakeholder pension plan	30	12
	506	342

The highest paid director in 2016 did not exercise any options (2015: none exercised).

The highest paid director in 2016 and 2015 received shares due to participation in the employee stock purchase plan and the other equity plans.

The highest paid director in 2016 did not require including the amount of gains made by directors on the exercise of share options.

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Finance income and finance costs

	2016 £'000	2015 £'000
Finance income		
Bank interest income	<u>51</u>	<u>85</u>
Total finance income	51	85
Finance Costs		
Bank interest expense	<u>(9)</u>	<u>-</u>
Total finance expense	<u>(9)</u>	<u>-</u>
Finance income net	<u>42</u>	<u>85</u>

9 Income tax expense on ordinary accounts

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax for current year before double tax relief	1,493	925
Double tax relief for current year	<u>(620)</u>	<u>(651)</u>
UK corporation tax for current year after double tax relief	873	274
Payable for group relief for current year	3	593
Foreign tax for current year	<u>891</u>	<u>977</u>
	<u>1,767</u>	<u>1,844</u>
UK corporation tax adjustment in respect of prior years	-37	40
Payable for group relief in respect of prior years	3	(2)
Foreign tax adjustment in respect of prior years	<u>37</u>	<u>96</u>
Adjustments in respect to prior years	3	134
Total current tax	<u>1,770</u>	<u>1,978</u>
Deferred tax:		
Origination and reversal of timing differences	(233)	(506)
Charged to Income statement for the year in respect of stock-based compensation	73	214
Change in tax rate	(10)	95
Adjustments in respect of prior years	<u></u>	<u>(134)</u>
Total deferred tax	<u>(170)</u>	<u>(331)</u>
Tax on profit	<u>1,600</u>	<u>1,647</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Income tax expense on ordinary accounts (continued)

The tax assessed for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%).

Factors affecting the tax charge for the year.

The difference between the current tax charge and the standard rate of corporation tax in the UK is explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before income tax	<u>7,650</u>	<u>8,062</u>
Profit on ordinary activities before taxation multiplied by the standard rate of tax in the UK of 20.00% (2015: 20.25%):	1,530	1,632
Effects of:		
Permanent difference on stock-based compensation	(495)	(450)
Expenses not deductible for tax purposes	113	70
Higher tax rates on overseas earnings	385	331
Difference between the standard corporation tax rate for the year and rates applicable for deferred tax	74	64
Adjustments in respect of prior years	<u>(7)</u>	<u>-</u>
Total tax charge for the year	<u>1,600</u>	<u>1,647</u>
Tax credited directly to equity		
Deferred tax credit to equity for the year in respect of stock-based compensation	(26)	(214)
Deferred tax credit to equity for Prior year in respect of stock-based compensation	<u>-</u>	<u>(366)</u>
Total Deferred tax credit to equity	<u>(26)</u>	<u>(580)</u>
Total movement in tax provision	<u><u>1,574</u></u>	<u><u>1,067</u></u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Income tax expense on ordinary accounts (continued)

Deferred tax asset

Provided at tax rate of 20.20% (2015: 20.67%):

	2016	2015
	£'000	£'000
Opening balance	3,369	2,458
Credited to profit and loss account and equity for the year	170	331
(Charged) credited to other comprehensive income	(26)	580
Closing balance	<u>3,513</u>	<u>3,369</u>

	2015	2015
	£'000	£'000
The above deferred tax asset comprised:		
Depreciation in excess of capital allowances	431	474
Fair values debited to profit and loss relating to unexercised options. Tax relief deferred until exercise.	2,991	2,665
Other short-term timing differences	91	230
Total deferred tax	<u>3,513</u>	<u>3,369</u>

The directors consider it more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the deferred tax asset has been recognised in the financial statements.

The corporation tax rate for the year ended 31 December was 20%. This rate will continue until 31 March 2017. As announced in the July 2015 Budget the main corporation tax rate will reduce to 19% effective 1 April 2017 to 31 March 2020.

An announcement was made in the March 2016 Budget that the main rate of corporation tax is to be further reduced to 17% effective from 1 April 2020. This was substantially enacted on 6 September 2016.

The company has unrelieved foreign tax totalling £1,551,173 (2015 £1,397,227) which is not recognised as an asset in the balance sheet. This unrelieved foreign tax would only be utilised against the UK tax liability if in the future the taxation payable in the relevant jurisdictions should fall below the level of UK taxation. Based on current tax rates the unrelieved foreign tax is not anticipated to be utilised in the foreseeable future.

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Tangible assets

	Leasehold improvements	Computer equipment	Office and other equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2015	5,970	5,045	2,970	13,985
Additions	425	1,072	63	1,560
Disposals	(66)	(74)	(107)	(247)
<u>At 31 December 2015</u>	<u>6,329</u>	<u>6,043</u>	<u>2,926</u>	<u>15,298</u>
At 1 January 2016	6,329	6,043	2,926	15,298
Additions	210	2,124	16	2,350
Disposals	-	115	0	115
<u>At 31 December 2016</u>	<u>6,539</u>	<u>8,282</u>	<u>2,942</u>	<u>17,763</u>
Accumulated depreciation				
At 1 January 2015	5,437	3,227	2,544	11,208
Charge for the year	207	1,173	263	1,643
Disposals	-	(2)	(107)	(109)
<u>At 31 December 2015</u>	<u>5,644</u>	<u>4,398</u>	<u>2,700</u>	<u>12,742</u>
At 1 January 2016	5,644	4,398	2,700	12,742
Charge for the year	233	1,159	179	1,571
Disposals	-	(12)	-	(12)
<u>At 31 December 2016</u>	<u>5,877</u>	<u>5,545</u>	<u>2,879</u>	<u>14,301</u>
Net book amount				
<u>At 31 December 2015</u>	<u>685</u>	<u>1,645</u>	<u>226</u>	<u>2,556</u>
<u>At 31 December 2016</u>	<u>662</u>	<u>2,737</u>	<u>63</u>	<u>3,462</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

11 Trade and other receivables

	2016	2015
	£'000	£'000
Trade and other receivables		
Trade debtors	28,932	26,821
Amounts owed by group undertakings	14,990	21,845
Prepayments and accrued income	2,394	1,678
Corporation Tax receivable	1,201	-
	<u>47,517</u>	<u>50,344</u>

Amounts owed by group undertakings are unsecured, interest free and payable on demand.

Trade and other receivables amounts falling due after more than one year:

	2016	2015
	£'000	£'000
Other debtors	25	43
	<u>25</u>	<u>43</u>
Total debtors	<u>47,542</u>	<u>50,387</u>

12 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	1,823	1,834
Amounts owed to fellow subsidiary undertakings	7,354	6,715
Taxation and social security	2,110	1,754
Accruals and deferred income	14,414	10,940
Total	<u>25,701</u>	<u>21,243</u>

Amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand.

Trade and other creditors are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit terms.

Tax and social security are repayable at various dates over the coming months in accordance with the applicable statutory provisions.

Notes to the financial statements for the year ended 31 December 2016 (continued)

13 Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Accruals and deferred income	<u>202</u>	<u>204</u>
Total	<u>202</u>	<u>204</u>

14 Provisions for liabilities

	2016	2015
	£'000	£'000
Dilapidations provision	<u>118</u>	<u>118</u>

A provision has been made in respect of the anticipated cost of de-commissioning the alterations made within the leasehold properties occupied by the company. The provision is included in the cost of the leasehold properties in fixed assets and is being depreciated over the lease term. The leases were renewed in March 2015 and will be subject to renewal in March 2025.

15 Lease obligations

At 31 December, the Company had future minimum lease payments due under non-cancellable operating leases as follows

	2016	2015
	£'000	£'000
Not later than one year	2,793	2,793
Later than one year and not later than five years	11,172	11,172
Later than five years	<u>8,765</u>	<u>11,558</u>
Total	<u>22,730</u>	<u>25,523</u>

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

16 Called up share capital

	2016	2015
	£'000	£'000
Allotted, issued and fully paid		
2,451,003 (2015: 2,451,003) ordinary shares at £1 each	2,451	2,451

17 Post –employment benefits

The Company provides eligible employees with an optional Post Retirement Savings Accounts (PRSA) scheme. In this scheme employees' and employer's contributions are invested in the employees personal account, which they are entitled to open through application to the contribution plan. The Company makes regular contributions on behalf of these employees who open a PRSA, up to a maximum of 9% of salary. This amount is included in total staff costs.

	2016	2015
	Number	Number
Number of employees at 31 December	294	421
Expense in the year	1,776	2,033
Year-end accrual	237	189

18 Stock-based benefit plans

Equity incentive plans

Employees participate in eBay's equity incentive plans. Stock options granted under these plans generally vest 25% one year from the date of grant for new employees (or 12.5% six months from the date of grant for grants to existing employees) and the remainder vest at a rate of 2.08% per month thereafter, and generally expire 7 to 10 years from the date of the grant. The cost of options is determined using the Black-Scholes option pricing model on the date of grant. Restricted stock units are granted to eligible employees under equity incentive plans. In general, restricted stock units vest in equal annual instalments over a period of three to five years, are subject to the employees' continuing service to us and do not have an expiration date. The cost of restricted stock units is determined using the fair value of eBay's Common Stock on date of grant.

The Company amortises the stock-based compensation charge in accordance with the accelerated method over the vesting period of the related options, which is generally four years. The impact of recognising the fair value of share option grants and restricted stock unit grants under the employee stock incentive plans as an expense under IFRS 2 is GBP 9,258,611 for the year ended 31 December 2016 (2015: GBP 8,115,145).

Employee stock purchase plan

eBay (UK) Limited employees participate in eBay Inc.'s Stock Purchase Plan ("ESPP"), available to eligible employees. Under the terms of this plan, shares of eBay common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last day of the six-month purchase period.

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Stock-based benefit plans (continued)

The following table summarises information about restricted stock units outstanding at 31 December 2016:

Grant- vest	Expiry year	Exercise price in GBP	Number of shares outstanding at 31 December 2016	Number of shares outstanding at 31 December 2015
2011	2018	-	-	5,363
2012	2019	-	-	96,700
2013	2020	16.69	51,239	180,254
2014	2021	16.62	188,959	516,204
2015	2022	17.39	348,991	545,942
2016	2023	18.16	537,973	-
Total			1,127,162	1,344,463

The following table summarises information about options units outstanding at 31 December 2016:

Grant- vest	Expiry year	Exercise price in GBP	Number of shares outstanding at 31 December 2016	Number of shares outstanding at 31 December 2015
2009	2016	-	-	2,663
2010	2017	7.19	288	2,873
2011	2018	9.58	15,582	29,600
2012	2019	14.36	2,386	795
2013	2020	16.76	604	347
2014	2021	16.86	952	5,813
2015	2022	17.19	1,247	2,646
Total			21,059	44,737

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

19 Controlling parties

The company is a wholly owned subsidiary of eBay International AG, Bern Switzerland, is the parent company. eBay Inc. is the parent company and ultimate controlling party of the largest group to consolidate these financial statements. Copies of eBay Inc. consolidated financial statements can be obtained from their company secretary at 2145 Hamilton Avenue, San Jose CA 95125, USA.