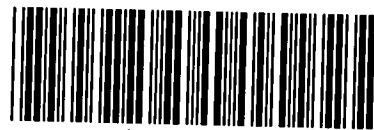


Facebook UK Limited

**Annual report and financial statements
for the year ended 31 December 2017**

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Facebook UK Limited

Company information

Directors	D W Kling S J 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 2017

The directors present their strategic report on the company for the year ended 31 December 2017.

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 is positioned to continue to expand in the future.

The company has continued to grow during the year, resulting in an increased headcount of 34%, from 960 in 2016 to 1,290 in 2017.

Revenue for the year amounted to £1,265,209,597 (2016: £842,429,955), which is an increase of £422,779,642. This is due to increased revenue from intercompany services and advertising reseller activities in 2017. Profit before tax has increased from £58,415,172 in 2016 to £62,767,201 in 2017.

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 on the company during the year with regard to the indications set out above.

By order of the board.



S J S Taylor
Director

Date: 27 July 2018

Facebook UK Limited

Directors' report for the year ended 31 December 2017

The directors present their report and the audited financial statements of the company for the year ended 31 December 2017.

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 £45,574,564 (2016: £55,838,090).

No dividends will be distributed for the year ended 31 December 2017 (2016: £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 (resigned 14 June 2018)
D W Kling
S J S Taylor (appointed 30 May 2017)

The directors and secretary and their families had no other interests in the shares of the company or any other group company at 31 December 2017 that require disclosure.

Research and development

Research and development expenses consist primarily of personnel-related costs, including salaries, benefits and share based payment charge for engineers and other employees engaged in the research and development of products and services.

The company has incurred £263,682,059 (2016: £207,223,687) in research, development and engineering expenditure during the year.

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.

Facebook UK Limited

Directors' report (continued) for the year ended 31 December 2017

Financial instruments (continued)

- **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 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.
- **Liquidity risk**
Liquidity risk is the risk that the company will encounter in realising assets or otherwise raising funds to meet commitments. The company monitors its risks to a shortage of funds on a regular basis, its objective being to ensure sufficient funds are available to meet its obligations as they fall due.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

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 to 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.

Facebook UK Limited

Directors' report (continued) for the year ended 31 December 2017

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.

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.

Post balance sheet events

There have been no subsequent events affecting the company since the year end.

Independent auditor

In accordance with section 485 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 J S Taylor

Director

Date: 27 July 2018

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

Opinion

We have audited the financial statements of Facebook UK Limited ('the Company') for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 23, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 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 properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Continued .../

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 director's report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Continued .../

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set 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, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernta Young

Marie Treacy
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm

Dublin

Date: 31 July 2018

Facebook UK Limited

Statement of comprehensive income for the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	4	1,265,209,597	842,429,955
Cost of sales		(758,665,346)	(457,818,355)
Gross profit		506,544,251	384,611,600
Administrative expenses		(444,473,194)	(326,090,463)
Operating profit	5	62,071,057	58,521,137
Interest receivable and similar income	7	715,148	26,625
Interest payable and similar charges	8	(19,004)	(132,590)
Profit on ordinary activities before tax		62,767,201	58,415,172
Tax charge on profit on ordinary activities	9	(17,192,637)	(2,577,082)
Profit for the year		45,574,564	55,838,090
Total comprehensive income for the year		45,574,564	55,838,090


All activities of the company are from continuing operations.

The notes on pages 11 to 27 form part of these financial statements.

Statement of financial position as at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	10	53,922	111,693
Tangible assets	11	80,904,858	32,483,533
		<u>80,958,780</u>	<u>32,595,226</u>
Current assets			
Debtors	12	453,646,487	382,757,520
Cash at bank and in hand		33,555,758	61,998,273
		<u>487,202,245</u>	<u>444,755,793</u>
Creditors: amounts falling due within one year	13	(336,947,049)	(276,761,572)
Net current assets		<u>150,255,196</u>	<u>167,994,221</u>
Total assets less current liabilities		<u>231,213,976</u>	<u>200,589,447</u>
Creditors: amounts falling due after more than one year	14	(17,646,020)	(4,618,965)
Provisions for liabilities	16	(13,079,729)	(6,105,101)
Net assets		<u>200,488,227</u>	<u>189,865,381</u>
Capital and reserves			
Called up share capital presented as equity	17	1,000	1,000
Retained earnings		200,487,227	189,864,381
Total equity		<u>200,488,227</u>	<u>189,865,381</u>

The financial statements on pages 8 to 27 were approved and authorised for issue by the board of directors and were signed on its behalf by:


S.J.S. Taylor
Director

Date: 27 July 2018

Facebook UK Limited

Statement of changes in equity for the period 1 January 2016 to 31 December 2017

	Called up share capital presented as equity £	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 and 1 January 2017	1,000	189,864,381	189,865,381
Profit for the financial year, representing total comprehensive income	-	45,574,564	45,574,564
Deferred tax movements	-	(5,676,123)	(5,676,123)
Recharge paid to parent for share based payment plan	-	(153,001,724)	(153,001,724)
Reserve credit for share based payment plan	-	115,275,437	115,275,437
Corporation tax credit for share based payment plan	-	8,450,692	8,450,692
At 31 December 2017	1,000	200,487,227	200,488,227

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

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 England 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);
 - 40A to D (requirements for a third party statement of financial position);
 - 111 (cash flow statement information);
 - 134 to 136 (capital management disclosures);
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services was determined);
- 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 2017

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 to the Facebook Group and advertising services to third parties 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 Research and development

Research costs are expensed in the period in which they are incurred. The company currently incurs no development costs which would meet the criteria for capitalisation as development expenditure under IAS 38 'Intangible Assets'.

2.4 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.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.5 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.

Non-monetary assets and liabilities which are measured using the historical cost convention are translated at the exchange rates at the date of initial translation and are not subsequently retranslated.

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.

2.6 Interest receivable

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

2.7 Interest payable

Interest payable generally comprises interest payable on borrowings calculated using the effective interest rate method, or interest and penalty expenses. These are recognised in the statement of comprehensive income.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.8 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. 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 on a non-discounted basis 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.

2.9 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.

2.10 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.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.11 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. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

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.

2.12 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 2017.

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings, are initially recognised at transaction price and subsequently carried at amortised using the effective interest method.

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.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.13 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.

2.14 Cash and cash equivalents

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

2.15 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.

2.16 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.

2.17 Asset retirement obligation

The company assesses its lease agreements for requirements to return leased premises to their original condition. Assessments are carried out by independent third party valuers to determine the level of work required and to evaluate the likely cost. A provision for dilapidations is recognised over the life of the lease for the best estimate of the cost of rectification at the end of the lease term.

2.18 Called up share capital

Ordinary shares are classified as equity.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.19 Share based payments

Facebook, Inc. (the "ultimate holding company") operates a share-based compensation plan. Employees of the company receives 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.

In 2017 the ultimate holding company recharged Facebook UK Limited for the value of the RSUs provided to the employees of the company. The recharge has been recorded within equity.

2.20 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 2017

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 2.9 and 2.11 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.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

5. Operating profit

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

	2017 £	2016 £
Loss on disposal of tangible fixed assets (see note 11)	-	4,744
Depreciation of tangible fixed assets (see note 11)	6,809,750	6,349,536
Amortisation of intangible fixed assets (see note 10)	57,771	47,992
Foreign exchange gains	(594,462)	(4,946,501)
Research, development and engineering expenses	263,682,059	207,223,687
Operating lease rentals	25,364,694	17,409,697
Auditor's remuneration - audit services	23,625	22,500
Auditor's remuneration - non-audit services	-	-
	=====	=====

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:

	2017 £	2016 £
Wages and salaries	144,989,044	104,094,972
Social security costs	27,089,975	20,431,511
Pension costs (see note 19)	6,551,067	4,484,146
Share based payments charge (see note 18)	115,275,437	77,980,414
	=====	=====
	293,905,523	206,991,043

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

	2017 No.	2016 No.
Engineering team	712	537
Sales support and marketing team	578	423
	=====	=====
	1,290	960

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

7. Interest receivable and similar income

	2017 £	2016 £
Interest receivable from group undertakings	712,946	-
Bank interest receivable	2,202	26,625
	<u>715,148</u>	<u>26,625</u>

8. Interest payable and similar charges

	2017 £	2016 £
Unwinding of discount on provision (see note 16)	19,004	132,590
	<u>19,004</u>	<u>132,590</u>

9. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profit for the year	15,792,576	5,101,427
Total current tax	<u>15,792,576</u>	<u>5,101,427</u>
Deferred tax		
Current year	448,388	(2,655,751)
Effects of changes in tax rates	951,673	131,406
Total deferred tax	<u>1,400,061</u>	<u>(2,524,345)</u>
Tax charge on profit on ordinary activities	<u>17,192,637</u>	<u>2,577,082</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	<u>62,767,201</u>	<u>58,415,172</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	12,082,686	11,683,034
Effects of:		
Expenses not deductible for tax purposes	23,303,509	12,654,465
Additional expenses deductible for tax purposes	(19,145,231)	(21,891,823)
Effects of changes in tax rates	951,673	131,406
Total tax charge for the year	<u>17,192,637</u>	<u>2,577,082</u>

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

10. Intangible assets

	Computer software £
Cost	
At 1 January 2017 and 31 December 2017	173,316
	<hr/>
Amortisation	
At 1 January 2017	61,623
Charge for the year	57,771
	<hr/>
At 31 December 2017	119,394
	<hr/>
Net book value	
At 31 December 2017	53,922
	<hr/> <hr/>
At 31 December 2016	111,693
	<hr/> <hr/>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

11. Tangible assets

	Leasehold improvements £	Plant & machinery £	Fixtures & fittings £	Computer equipment £	Assets in the course of construction £	Total £
Cost						
At 1 January 2017	31,354,074	6,777,299	1,561,485	1,287,929	2,910,061	43,890,848
Additions	9,863,271	3,560,759	-	1,125,869	40,613,007	55,162,906
Transfers intra group	-	5,436	-	62,733	-	68,169
Disposals	-	(117,653)	-	(1,999)	-	(119,652)
Transfers between classes	37,120,578	5,316,639	6,648	86,850	(42,530,715)	-
At 31 December 2017	78,337,923	15,542,480	1,568,133	2,561,382	992,353	99,002,271
Depreciation						
At 1 January 2017	6,680,211	3,725,473	461,057	540,574	-	11,407,315
Charge for the year	4,095,962	1,863,790	326,859	523,139	-	6,809,750
Disposals	-	(117,653)	-	(1,999)	-	(119,652)
At 31 December 2017	10,776,173	5,471,610	787,916	1,061,714	-	18,097,413
Net book value						
At 31 December 2017	67,561,750	10,070,870	780,217	1,499,668	992,353	80,904,858
At 31 December 2016	24,673,863	3,051,826	1,100,428	747,355	2,910,061	32,483,533

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

12. Debtors

	2017 £	2016 £
Trade debtors	269,400,848	203,146,849
Amounts owed by group undertakings	153,306,518	145,905,289
Prepayments and accrued income	9,884,794	5,574,871
Deferred taxation (see note 15)	21,054,327	28,130,511
	<u>453,646,487</u>	<u>382,757,520</u>

Trade debtors are stated after provisions for impairment of £3,747,892 (2016: £2,888,774).

Amounts owed by group undertakings are unsecured and repayable on demand.

13. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	5,313,272	1,810,153
Amounts owed to group undertakings	234,407,149	196,497,984
Corporation tax	2,986,999	2,675,664
Other taxation and social security	47,016,773	42,362,893
Accruals and deferred income	47,222,856	33,414,878
	<u>336,947,049</u>	<u>276,761,572</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

	2017 £	2016 £
Amounts owed to group undertakings	1,261,737	1,261,737
Accruals	16,384,283	3,357,228
	<u>17,646,020</u>	<u>4,618,965</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 2017

15. Deferred taxation

	2017 £	2016 £
At beginning of year	28,130,511	25,130,343
(Charged)/credited to the profit and loss account	(1,400,061)	2,524,345
(Charged)/credited to the statement of changes in equity	(5,676,123)	475,823
At end of year	21,054,327	28,130,511

The deferred taxation balance is made up as follows:

	2017 £	2016 £
Deductible temporary differences	21,054,327	28,130,511

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 £21,054,327 (2016: £28,130,511) 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.

16. Provisions

	Dilapidations £
At 1 January 2017	6,105,101
Additions	6,955,624
Unwinding of discount (see note 8)	19,004
At 31 December 2017	13,079,729

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, 2026 and 2032. Amounts charged to the statement of comprehensive income in the year are included within administrative expenses.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

17. Share capital

	2017 £	2016 £
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

18. Share based payments

At 31 December 2017 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:

	2017 RSUs Number	2016 RSUs Number
Outstanding at 1 January	2,927,252	3,535,629
Granted	1,486,782	1,586,444
Movements*	(273,022)	(362,782)
Settled	(1,371,147)	(1,474,532)
Forfeited	(420,144)	(357,507)
Outstanding at 31 December	<u>2,349,721</u>	<u>2,927,252</u>

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

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2017

18. Share based payments (continued)

The fair value of RSUs granted in the year was £116.11 (US\$146.77) (2016: £84.96 (US\$115.23)).

The weighted average share price during the year for RSUs settled was £121.33 (US\$156.58) (2016: £86.11 (US\$117.04)).

The total charge for the year relating to employee share based payment plans was £115,275,437 (US\$150,587,095) (2016: £77,980,414 (US\$115,908,048)).

19. Pension commitments

The company operates a defined contributions pension scheme. The cost of contributions to the defined contribution scheme amounts to £6,551,067 (2016: £4,484,146). There was an amount outstanding at the year end totalling £415,973 (2016: £148,594).

20. Commitments under operating leases

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Not later than 1 year	7,552,197	14,204,704
Later than 1 year and not later than 5 years	101,012,426	83,102,514
Later than 5 years	224,736,587	210,003,278
	<u>333,301,210</u>	<u>307,310,496</u>

21. Events since the end of the financial year

The company has signed an agreement for a new facility lease in the UK in July 2018. There have been no other significant events affecting the company since the year end.

22. 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.

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.

The company has availed of the exemption in FRS 101 paragraph 8(k) from disclosing related party transactions entered into between two or more wholly-owned members of the Facebook group.

23. Approval of the financial statements

The financial statements were approved and authorised for issue by the directors on 27 July 2018.