

eBay (UK) Limited

Registered number: 03726028

eBay (UK) Limited

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



eBay (UK) Limited

Annual report and financial statements For the year ended 31 December 2017

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eBay (UK) Limited

Company information
For the year ended 31 December 2017

Directors: Alec Latimer, Rob Hattrell, Murray Lambell, and Maurizio D'Arrigo

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 2017

The directors present their strategic report on eBay (UK) Limited ("the Company") for the year ended 31 December 2017.

Review of the Business

The Company's profit for the financial year amounted to £6,390,000 (2016: 6,050,000). The directors recommend no ordinary dividend to be paid out for the year.

The Company's key financial and other performance indicators during the year were as follows:

	2017	2016
	£'000	£'000
Revenue	585,161	200,473
Operating profit	20,240	7,608
Profit for the financial year	6,390	6,050
Total shareholder's fund	58,588	54,709
Average number of employees	344	411

Revenue increased by £384'688'000 during the year, primarily due to the change in our business model. 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 the cash needs of our platforms, capital allocation considerations and the associated tax effects. As of 1 August 2017, the Company has started to collect the fees from the eBay sellers in the UK. This change significantly increased the Company's revenue and operating profit.

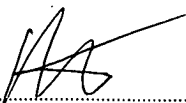
The total tax charge for the year includes a prior year adjustment in relation to profits for the year, following an agreement reached with HMRC on transfer-pricing. Details are set out in note 9.

The Company has also continued to focus on the growth of its advertising business by means of its overseas branches in France, Germany, Italy and Australia.

PRINCIPAL RISKS AND UNCERTAINTIES

Since 1 August 2017 the Company collects the fees from the eBay sellers in the UK and therefore the Company's operational and financial results are subject to various risks and uncertainties that could adversely affect the business, financial condition, results of operations and cash flow. The risk factors for the Company are similar to risk factors for eBay as a group disclosed in the Risk Factors in our annual report (<http://investor.ebay.com>). Those risk factors included substantial and increasingly intense competition worldwide, economic conditions that could harm our business, fluctuation in foreign currency exchange rate, uncertainty in regards to Brexit, and others.

ON BEHALF OF THE BOARD


..... Date: 01/10/2018

Alec Latimer – Director

eBay (UK) Limited

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report with for the year ended 31 December 2017.

Future Developments

The Company intends to continue operating in the area of internet marketplaces, performing marketing and related activities for the eBay UK marketplace and group, as well as to invoice and collect the fees from the seller in the UK.

Financial instruments

The Company finances its activities primary over equity from eBay Inc. or its subsidiaries and through its past profits. Overdrafts are used to satisfy short term cash flow requirements.

The Company also enters into derivative transactions, including principally forward currency contracts and options. The purpose is to manage the currency risks arising from the Company's operations.

Use of derivatives

The Company uses forward foreign currency contracts and options to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material collection and payments in a foreign currency. Hedge accounting is used when certain criteria is met as explained in the accounting policy note on page 13.

Foreign branches

The Company operates a branch each in Germany, France, Italy, Belgium and Australia. As part of eBay's realigning on the legal structure, the business activities for the branch in Belgium has moved to eBay Classifieds Belgium B.V.B.A. as of 1 January 2018. The remaining branches continued with their operations during the financial year. The business activities for the branch in Germany has moved to eBay GmbH and mobile.de GmbH as of 1 June 2018.

Post Balance Sheet Events

Apart from the changes in the branch in Germany as mentioned above, there were no significant events affecting the Company since year-end.

**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 Patrick Latimer (Appointed 14 April 2014)

Robert John Hattrell (Appointed 10 March 2017)

Murray Lambell (Appointed 01 July 2018)

Maurizio D'Arrigo (Appointed 10 September 2018)

Pierre Dunoyer de Segonzac (Appointed 24 January 2017, Resigned 15 December 2017)

Minh Phunong Nguyen (Appointed 24 April 2015, Resigned 24 January 2017)

ON BEHALF OF THE BOARD


Alec Latimer – Director

Date: 01/10/2018

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

Report on the audit of the financial statements

Opinion

In our opinion, eBay (UK) Limited's financial statements:

- give a true and fair view of the state 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 (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position; the Statement of Comprehensive Income, the Statement of Changes in Equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Director's Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Director's Report for the period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Director's Report.

Responsibilities for the financial statements and the audit

Responsibilities of the director for the financial statements

As explained more fully in the Statement of Director's Responsibilities set out on page 5, the director is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The director is also responsible for such internal control as he determines 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 director is 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 the director either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

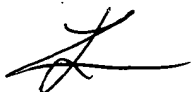
Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.



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

London
1 October 2018

eBay (UK) Limited

**STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2017**

	Note	2017 £'000	2016 £'000
Revenue	4	585,161	200,473
Cost of sales		<u>(564,921)</u>	<u>(192,865)</u>
Operating profit	5	20,240	7,608
Finance income	8	29	51
Finance costs	8	<u>(355)</u>	<u>(9)</u>
Profit before taxation		19,914	7,650
Income tax expense	9	(13,524)	(1,600)
Profit for the financial year		<u>6,390</u>	<u>6,050</u>
Other comprehensive income for the year: items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		694	2,054
Deferred tax charged to equity	9	<u>223</u>	<u>26</u>
Total comprehensive income for the year		<u>7,307</u>	<u>8,130</u>

The above results were derived from continuing operations. The notes on pages 12 to 26 form an integral part of these financial statements.

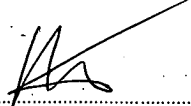
eBay (UK) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Tangible assets	10	3,328	3,462
Deferred income tax asset	9	3,631	3,513
		<u>6,959</u>	<u>6,975</u>
Current assets			
Trade and other receivables	11	97,364	47,517
Trade and other receivables amounts falling due after more than one year	11	27	25
Cash and cash equivalents		118,062	26,213
		<u>215,453</u>	<u>73,755</u>
Creditors: amounts falling due within one year	12	(163,491)	(25,701)
Net current assets		<u>51,962</u>	<u>48,054</u>
Total assets less current liabilities		<u>58,921</u>	<u>55,029</u>
Creditors: amounts falling due after more than one year	13	(215)	(202)
Provisions for liabilities	14	(118)	(118)
Net assets		<u>58,588</u>	<u>54,709</u>
Equity			
Called up share capital	16	2,451	2,451
Share Premium account		6,853	6,853
Retained earnings		47,373	44,188
Foreign currency translation reserve		1,911	1,217
Total shareholders' funds		<u>58,588</u>	<u>54,709</u>

The notes on pages 12 to 26 form an integral part of these financial statements. The financial statements on pages 9 to 26 were approved by the board of directors on ~~01/10/2018~~ and were signed on its behalf by:


 Date: 01/10/2018

Alec Latimer – Director

eBay (UK) Limited (Registered number: 0372602)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016		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
Equity contributed by parent under equity incentive plans				10,387			10,387
Payments to parent for intrinsic value of share incentives exercised				(13,815)			(13,815)
Share based compensation excess recharge				3,428	(3,428)		0
Deferred tax credit to equity					223		223
Profit for the Financial Year					6,390		6,390
Currency Translation						694	694
At 31 December 2017		2,451	6,853	0	47,373	1,911	58,588

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

1. General information

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 trading community.

Until 1 August 2017, the principal activities of the Company in the year under review had been to provide marketing related services to eBay International AG (eBay Marketplaces GmbH, incorporated in Switzerland, for the month of July 2017), for the UK internet marketplace and group, as well as related third party advertising sales in the UK, and in its branches in Germany, France, Italy and Australia.

As of 1 August 2017, the Company has started to collect the fees from eBay sellers registered in the UK. Accordingly, the new principal activities of the Company are to perform marketing and related services for the UK internet marketplace and group and to invoice and collect the fees for registered sellers in the UK as well as related third party advertising sales in the UK, and in its branches in Germany, France, Italy and Australia.

The business activities of the branch in Belgium have moved to eBay Classifieds Belgium B.V.B.A. as of 1 January 2018. The business activities of the branch in Germany have moved to eBay GmbH and mobile.de GmbH as of 1 June 2018. The German branch continues to collect revenues until 31 December 2018.

The Company is a private company and is incorporated and domiciled in the UK. The address of its registered office is 5 New Street Square, London, United Kingdom, EC4A 3TW.

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.

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)

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. Summary of significant accounting policies (continued)

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

Revenue

Revenue represents the revenue excluding value added tax.

Revenue from the collection of fees from UK registered sellers: The Company generates net transaction revenues primarily from final value fees and listing fees paid by sellers. Final value fee revenues are recognized at the time that the transaction is successfully closed, while listing fee revenues are recognized ratably over the estimated period of the listing. An auction transaction is considered successfully closed when at least one buyer has bid above the seller's specified minimum price or reserve price, whichever is higher, and the end of the transaction term.

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.

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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. Summary of significant accounting policies (continued)

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 other 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.

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.

eBay (UK) Limited

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 2017 (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 2017		31 December 2016	
Euro	GBP	Euro	GBP
1.0000	0.887608	1.0000	0.85316
AUD	GBP	AUD	GBP
1.0000	0.579499	1.0000	0.58639

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 2017 (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 which 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 2017 (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 until 1 August 2017 and being the collection of the fees for the eBay sellers in the UK and advertising sales since 1 August 2017.

	2017	2016
	£'000	£'000
UK	461,222	84,033
Europe	106,611	100,834
Australia	17,328	15,606
Total	585,161	200,473

5. Operating profit

	2017	2016
	£'000	£'000
The operating profit is stated after charging/(crediting):		
Audit of the entity financial statements	155	58
Auditors' remuneration – Other services	-	-
FX (gains)/losses on trade receivables	(976)	(2,163)
Depreciation - owned assets	2,007	1,571
Loss on disposal of fixed Assets	72	1
Operating lease charges land and building	1,928	3,610

6. Staff costs

	2017	2016
	£'000	£'000
Staff costs consist of:		
Wages and salaries	38,255	38,436
Social security costs	4,157	5,176
Other pension costs	2,044	2,066
Share-based compensation	10,387	9,259
Total staff costs	54,843	54,937

Notes to the financial statements for the year ended 31 December 2017 (continued)

6. Staff costs (continued)

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

	2017	2016
By activity:	Number	Number
Management	50	54
Administration and operations	294	357
Total	344	411

7. Directors' remuneration

Directors' remuneration:

	2017	2016
	£'000	£'000
Aggregate emoluments excluding pension contributions	491	780
Aggregate Company contributions to the stakeholder pension plan for the directors	31	46
	523	826

Directors' share options:

	2017	2016
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	2	3
Number of directors to whom retirement benefits were accruing under the stakeholder pension plan	2	3

Highest paid director:

	2017	2016
	£'000	£'000
Aggregate emoluments excluding pension contributions	309	476
Company contributions to the stakeholder pension plan	19	30
	328	506

The highest paid director in 2017 did not exercise any options (2016: none exercised).

The highest paid director in 2017 received shares.

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

8. Finance income and finance costs

	2017	2016
	£'000	£'000
Finance Income:		
Bank interest income	29	51
Total finance income	<u>29</u>	<u>51</u>
Finance Cost:		
Bank interest expense	(105)	(9)
Tax interest expense	(250)	-
Total Finance Cost	<u>(335)</u>	<u>(9)</u>
Total finance (expense)/ income	<u>(326)</u>	<u>42</u>

9. Income tax expense on ordinary accounts

	2017	2016
	£'000	£'000
Current tax:		
UK corporation tax for current year before group tax relief	5,220	1,493
Double tax relief for current year	(829)	(620)
UK corporation tax for current year after double tax relief	4,391	873
Payable for group relief for current year	339	3
Foreign tax for current year	1,228	891
	<u>5,958</u>	<u>1,767</u>
UK corporation tax adjustment in respect of prior years	7,157	(37)
Payable for group relief in respect of prior years	-	3
Foreign tax adjustment in respect of prior years	304	37
Adjustments in respect to prior years	7,461	3
Total current tax	<u>13,419</u>	<u>1,770</u>
Deferred tax:		
Origination and reversal of timing differences	170	(233)
Change in tax rate	68	73
Adjustments in respect of prior years	(133)	10
Total deferred tax	<u>105</u>	<u>(170)</u>
Tax on profit	<u>13,524</u>	<u>1,600</u>

Notes to the financial statements for the year ended 31 December 2017 (continued)

9. Income tax expense on ordinary accounts (continued)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19.00% (2016: 20.00%).

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:

	2017 £'000	2016 £'000
Profit on ordinary activities before income tax	<u>19,914</u>	<u>7,650</u>
Profit on ordinary activities before taxation multiplied by the standard rate of tax in the UK of 19.25% (2016: 20.00%):	3,833	1,530
Effects of:		
Permanent difference on share-based compensation	(458)	(495)
Expenses not deductible for tax purposes	75	113
Imputed additional income for tax purposes	2,284	-
Higher tax rates on overseas earnings	371	385
Difference between the standard corporation tax rate for the year and rates applicable for deferred tax	92	74
Adjustments in respect of prior years	<u>7,327</u>	<u>(7)</u>
Total tax charge for the year	<u>13,524</u>	<u>1,600</u>
Tax credited directly to equity		
Deferred tax credit to equity for the year in respect of share-based compensation	(223)	(26)
Deferred tax credit to equity for Prior year in respect of share-based compensation	<u>-</u>	<u>-</u>
Total Deferred tax credit to equity	<u>(223)</u>	<u>(26)</u>
Total movement in tax provision	<u><u>13,301</u></u>	<u><u>1,574</u></u>

Notes to the financial statements for the year ended 31 December 2017 (continued)

9. Income tax expense on ordinary accounts (continued)

Deferred tax asset

Provided at tax rate of 19.91% (2016: 20.20%):

	2017	2016
	£'000	£'000
Opening balance	3,513	3,369
Credited to profit and loss account and equity for the year	(105)	170
(Charged) credited to other comprehensive income	223	(26)
Closing balance	3,631	3,513

	2017	2016
	£'000	£'000
The above deferred tax asset comprised:		
Depreciation in excess of capital allowances	522	431
Fair values debited to profit and loss relating to unexercised options. Tax relief		
Deferred until exercise.	2,944	2,991
Other short-term timing differences	165	91
Total deferred tax	3,631	3,513

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 was 19.25%. As announced in the July 2015 Budget the main corporation tax rate reduced to 19% effective 1 April 2017 and will continue to apply 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 £2,274,811 (2016 £1,875,485) 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.

Since expiry of the Company's previous Advance Pricing Agreement [APA] with HM Revenue and Customs [HMRC], the Company and HMRC have been undertaking a review of the Company's business activities and business developments, taking into account the impact of the changing global taxation landscape for e-commerce, with a view to ascertaining a mutually acceptable basis for achieving arm's length transfer-pricing for tax purposes. The Company recently reached agreement with HMRC on transfer-pricing for tax purposes in respect of the accounting periods ended up to and including 31 December 2016. In the 2015 and 2016 accounts, the tax liability had been calculated based on the principles of the previous APA. Following the recent agreement a £7,146,890 additional tax provision has been recorded in these financial statements, included within the heading UK corporation tax adjustment in respect of prior years.

The tax provision for the period ended 31 December 2017 has been made having taken into account the transfer-pricing basis agreed with HMRC for 2015 and 2016.

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

10. Tangible assets

	Leasehold improvements	Computer equipment	Office and other equipment	Total
	£'000	£'000	£'000	£'000
Cost				
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>
At 1 January 2017	6,539	8,282	2,942	17,763
Additions	185	1,734	29	1,948
Disposals	(37)	(101)	(8)	(146)
<u>At 31 December 2017</u>	<u>6,687</u>	<u>9,915</u>	<u>2,963</u>	<u>19,565</u>
Accumulated depreciation				
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>
At 1 January 2017	5,877	5,545	2,879	14,301
Charge for the year	262	1,724	21	2,007
Disposals	-	(71)	-	(71)
<u>At 31 December 2017</u>	<u>6,124</u>	<u>7,213</u>	<u>2,900</u>	<u>16,237</u>
Net book amount				
<u>At 31 December 2016</u>	<u>662</u>	<u>2,737</u>	<u>63</u>	<u>3,462</u>
<u>At 31 December 2017</u>	<u>548</u>	<u>2,717</u>	<u>63</u>	<u>3,328</u>

eBay (UK) Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

11. Trade and other receivables

	2017	2016
	£'000	£'000
Trade and other receivables		
Trade debtors	91,665	28,932
Amounts owed by group undertakings	4,289	14,990
Prepayments and accrued income	1,410	2,394
Corporation Tax receivable	-	1,201
Total trade and other receivables	97,364	47,517

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:

	2017	2016
	£'000	£'000
Other debtors	27	25
	27	25
Total debtors	97,391	47,542

12. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	8,388	1,823
Amounts owed to fellow subsidiary undertakings	60,126	7,354
Taxation and social security	67,331	2,110
Accruals and deferred income	27,646	14,414
Total	163,491	25,701

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 2017 (continued)

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

	2017	2016
	£'000	£'000
Accruals and deferred income	215	202
Total	215	202

14. Provisions for liabilities

	2017	2016
	£'000	£'000
Dilapidations provision	118	118

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

	2017	2016
	£'000	£'000
Not later than one year	1,726	2,793
Later than one year and not later than five years	6,902	11,172
Later than five years	3,837	8,765
Total	12,465	22,730

16. Called up share capital

	2017	2016
	£'000	£'000
Allotted, issued and fully paid		
2,451,003 (2016: 2,451,003) ordinary shares at £1 each	2,451	2,451

Notes to the financial statements for the year ended 31 December 2017 (continued)

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.

	2017	2016
Number of employees at 31 December	385	294
Expense in the year (£'000)	1,659	1,776
Year-end accrual (£'000)	157	237

18. Share-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 share-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 10,387,004 for the year ended 31 December 2016 (2016: GBP 9,258,611).

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.

The following table summarises information about restricted stock units outstanding at 31 December 2017:

Grant-vest	Expiry year	Exercise price in GBP	Number of shares outstanding at 31 December 2017	Number of shares outstanding at 31 December 2016
2013	2020	-	-	51,239
2014	2021	17.49	64,612	188,959
2015	2022	18.31	155,001	348,991
2016	2023	19.04	258,166	537,973
2017	2024	26.48	535,783	-
			1,013,562	1,127,162

Notes to the financial statements for the year ended 31 December 2017 (continued)

The following table summarises information about options units outstanding at 31 December 2017:

Grant- vest	Expiry year	Exercise price in GBP	Number of shares outstanding at 31 December 2017	Number of shares outstanding at 31 December 2016
2009	2016	-	-	-
2010	2017	7.53	288	288
2011	2018	13.04	2	15,582
2012	2019	-	-	2,386
2013	2020	-	-	604
2014	2021	-	-	952
2015	2022	-	-	1,247
Total			290	21,059

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.