

Facebook UK Limited

Directors' report and financial statements

for the year ended 31 December 2011

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Facebook UK Limited

Company Information

Directors	C R Herman T W Ulliyot
Company secretary	Jordan Cosec Limited
Company number	06331310
Registered office	Gladstone House 77-79 High Street Egham Surrey TW20 9HY
Auditors	Ernst & Young Chartered Accountants Harcourt Centre Harcourt Street Dublin 2 Ireland

Facebook UK Limited

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Facebook UK Limited

Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

Principal activity

The principal activity of the company in the year under review was that of providing marketing and sales support to the Facebook Group

Business review

The company's business activities have grown during 2011. The total of sales and marketing services provided to the Facebook Group amounted to £20,413,542, which is an increase of £5,139,470 on the amount of sales and marketing services provided in 2010. Profit before tax has decreased from a profit of £1,074,563 in 2010 to a loss of £13,928,926 in 2011. The decrease in profit is attributable to the share based payment charge of £15,443,334 in 2011. There was no equivalent charge in 2010. Profit before tax excluding the share based payment charge amounted to £1,514,408.

The average headcount has increased from 81 people at the end of 2010 to 90 people at 31 December 2011.

Principal risks and uncertainties

The principal risks and uncertainties have been identified as being

- The emergence of rival social networks which could result in users leaving Facebook
- A breach of security on the site which would result in the site crashing, the knock on effect of this would be users losing trust in the site
- Privacy issues reducing the number of users
- A global recession which would lead to a reduction in online advertising spend
- Challenges around monetising mobile usage on Facebook

Future developments

The company has increased its activities and headcount during the year and is positioned to continue growing in 2012. The company moved into new premises at 42 Earlham Street on 26 March 2012. This will enable the company to continue to grow its headcount. On 24 July 2012 it was announced that Facebook would make Facebook UK's office its first engineering office outside of the US with intention to hire 22 engineers.

Results and dividends

The loss for the financial year, after taxation, amounted to £10,229,869 (2010 profit £678,000)

No dividends will be distributed for the year ended 31 December 2011 (2010 £nil)

Directors

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

C R Herman
T W Uillyot

Facebook UK Limited

Directors' report for the year ended 31 December 2011

Financial instruments

The company's financial instruments at the balance sheet date comprised of a loan from the parent company plus cash and liquid resources. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial instruments such as trade creditors, that arise directly from its 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 risk arising from the company's financial instruments is foreign currency risk.

- Foreign currency risk

The gains and losses arising from the company's exposure to foreign currency risk arising from its overseas operations are recognised in the profit and loss account.

Branches

During the prior year the company also conducted business using an overseas branch based in France. As detailed in note 2 of the financial statements the activities carried out by the branch were transferred to a separate company at the beginning of this year.

Directors' responsibilities statement

The directors are responsible for preparing 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Facebook UK Limited

Directors' report for the year ended 31 December 2011

Provision of information to auditors

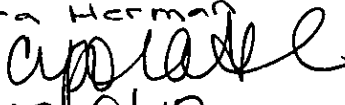
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Auditors

On 1 December 2011, Ernst & Young were appointed as auditors of the company and will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006

By order of the board

Cipora Herman
Director 
Date 25/9/12

Independent Auditors' Report to the Members of Facebook UK Limited

We have audited the financial statements of Facebook UK Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

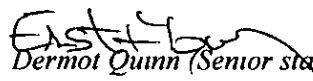
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Independent Auditors' Report to the Members of Facebook UK Limited Limited (*Continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit


Dermot Quinn (Senior statutory auditor)
for and on behalf of Ernst & Young, Statutory Auditor

Dublin

26 September 2012

Facebook UK Limited

Profit and loss account for the year ended 31 December 2011

	Note	2011 £	2010 £
Turnover	1,2		
Continuing operations		20,413,542	13,000,579
Discontinued operations		-	2,273,493
		<u>20,413,542</u>	<u>15,274,072</u>
Cost of sales	3	(274,084)	(529,636)
		<u>20,139,458</u>	<u>14,744,436</u>
Gross profit			
Administrative expenses	3	(34,071,121)	(13,669,873)
		<u>(34,071,121)</u>	<u>(13,669,873)</u>
Operating (loss)/profit	4		
Continuing operations		(13,931,663)	865,666
Discontinued operations		-	208,897
		<u>(13,931,663)</u>	<u>1,074,563</u>
Interest receivable and similar income		2,737	-
		<u>2,737</u>	<u>-</u>
(Loss)/profit on ordinary activities before taxation		<u>(13,928,926)</u>	<u>1,074,563</u>
Tax on (loss)/profit on ordinary activities	6	3,699,057	(396,563)
		<u>3,699,057</u>	<u>(396,563)</u>
(Loss)/profit for the financial year	13	<u><u>(10,229,869)</u></u>	<u><u>678,000</u></u>

There were no recognised gains and losses for 2011 or 2010 other than those included in the profit and loss account

The notes on pages 9 to 20 form part of these financial statements

update
20/9/12

Facebook UK Limited

Registered number: 06331310

Balance sheet as at 31 December 2011

	Note	£	2011 £	£	2010 £
Fixed assets					
Tangible assets	7		754,888		875,950
Current assets					
Debtors	8	6,606,869		2,706,186	
Cash at bank		3,212,157		1,778,652	
		<u>9,819,026</u>		<u>4,484,838</u>	
Creditors: amounts falling due within one year	9	<u>(2,623,780)</u>		<u>(2,601,655)</u>	
Net current assets			<u>7,195,246</u>		<u>1,883,183</u>
Total assets less current liabilities			<u>7,950,134</u>		<u>2,759,133</u>
Creditors, amounts falling due after more than one year	10		<u>(1,261,737)</u>		<u>(1,261,737)</u>
Provisions for liabilities					
Deferred tax	11		-		(22,464)
Net assets			<u>6,688,397</u>		<u>1,474,932</u>
Capital and reserves					
Called up share capital	12		1,000		1,000
Profit and loss account	13		<u>6,687,397</u>		<u>1,473,932</u>
Shareholders' funds	14		<u>6,688,397</u>		<u>1,474,932</u>

The financial statements on pages 6 to 20 were approved and authorised for issue by the board of directors on 2012 and were signed on its behalf by

Cipora Herman
Director

The notes on pages 9 to 20 form part of these financial statements

Cipora Herman
25/9/12

Facebook UK Limited

Cash flow statement for the year ended 31 December 2011

	Note	2011 £	2010 £
Net cash flow from operating activities	15	2,358,910	934,441
Returns on investments and servicing of finance	16	2,737	-
Taxation	16	(548,427)	(494,739)
Capital expenditure and financial investment	16	(379,715)	(541,159)
Increase/(decrease) in cash in the year		1,433,505	(101,457)

Reconciliation of net cash flow to movement in net funds for the year ended 31 December 2011

	2011 £	2010 £
Increase/(decrease) in cash in the year	1,433,505	(101,457)
Movement in net funds in the year	1,433,505	(101,457)
Net funds at 1 January 2011	1,778,652	1,880,109
Net funds at 31 December 2011	3,212,157	1,778,652

The notes on pages 9 to 20 form part of these financial statements

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

1. Accounting policies

1.1 Basis of preparation of the financial statements

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with Companies Act 2006 and applicable United Kingdom accounting standards

The principal accounting policies, which have been applied consistently in the current and previous financial year, are set out below

1.2 Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of services to the Facebook Group 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

1.3 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Leasehold improvements	-	Straight line over period of the lease
Plant & machinery	-	33% on cost
Fixtures & fittings	-	50% on cost
Computer equipment	-	33% on cost
Assets in the course of construction	-	no depreciation as assets not in use

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies (continued)

1.5 Taxation

Current tax, including UK Corporation Tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

1.6 Share based payments

Facebook Inc (the "ultimate parent undertaking") operates a share-based compensation plan. Employees of the company receive remuneration in the form of equity instruments (options) 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 options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted

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

At the end of each reporting period, the ultimate holding company revises its estimates of the number of options 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 income statement

When the options are exercised, the ultimate parent undertaking issues new shares

The grant of equity instruments (options) by the ultimate parent undertaking to the employees of the company is treated as equity-settled, with a corresponding increase in equity as a contribution from the ultimate parent undertaking

1.7 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

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

Exchange gains and losses are recognised in the profit and loss account

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

2. Turnover

The total turnover of the company from continuing activities is derived from its principal activity and is attributable to Ireland

Discontinued operations relate to the branch operated in France. At the start of the year, the trade and assets associated with the French branch were transferred into a separate company, Facebook France SARL. For the purpose of these financial statements this has been disclosed as a discontinued operation.

3 Analysis of operating (loss)/profit

	2011		2010	
	Continuing £	Discontinued £	Continuing £	Discontinued £
Turnover	20,413,542	-	13,000,579	2,273,493
Cost of sales	(274,084)	-	(529,636)	-
Gross profit	20,139,458	-	12,470,943	2,273,493
Administrative expenses	(34,071,121)	-	(11,605,277)	(2,064,596)
Operating (loss)/profit	(13,931,663)	-	865,666	208,897

4. Operating (loss)/profit

The operating (loss)/profit is stated after charging

	2011 £	2010 £
Depreciation of tangible fixed assets		
- owned by the company	500,777	442,727
Auditors' remuneration	15,000	12,575
Auditors' remuneration - non-audit	-	173,057
Operating lease rentals		
- plant and machinery	-	78,528
- other operating leases	426,076	521,512
Difference on foreign exchange	325	56,879

The directors of the company were also senior executives of, and were remunerated by, Facebook Inc and received no remuneration for services to the company.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

5. Staff costs

Staff costs were as follows

	2011 £	2010 £
Wages and salaries	8,241,055	6,756,853
Social security costs	1,121,560	1,097,925
Share based payment charge (see note 18)	15,443,334	-
	<u>24,805,949</u>	<u>7,854,778</u>

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

	2011 No	2010 No
Management team	7	6
Finance team	1	1
Administration team	3	1
Technical team	10	13
Sales team	69	46
France	0	14
	<u>90</u>	<u>81</u>

6. Taxation

	2011 £	2010 £
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on (loss)/profit for the year	185,196	424,651
Adjustments in respect of prior periods	10,694	-
Foreign tax adjustments in respect of prior periods	42,427	-
Total current tax	<u>238,317</u>	<u>424,651</u>
Deferred tax		
Origination and reversal of timing differences	(4,156,417)	(28,088)
Adjustment in respect of previous periods	(14,342)	-
Effect of changes in tax rates	233,385	-
Total deferred tax (see note 11)	<u>(3,937,374)</u>	<u>(28,088)</u>
Tax on (loss)/profit on ordinary activities	<u>(3,699,057)</u>	<u>396,563</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

6 Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher (2010 higher) than the standard rate of corporation tax 26.49% (2010 28%). The differences are explained below

	2011 £	2010 £
(Loss)/profit on ordinary activities before tax	<u>(13,928,926)</u>	<u>1,074,563</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.49% (2010 28%)	(3,690,211)	300,878
Effects of.		
Expenses not deductible for tax purposes	110,151	84,460
Depreciation for year in excess of capital allowances	73,130	37,732
Adjustments to tax charge in respect of prior periods	53,121	1,581
Timing differences on share based payments	3,692,126	-
Current tax charge for the year	<u><u>238,317</u></u>	<u><u>424,651</u></u>

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011. A further reduction from 26% to 25% was substantively enacted in July 2011 and will be effective from 1 April 2012. Accordingly, these rates have been applied in the measurement of the company's deferred tax assets and liabilities as at 31 December 2011.

Further reductions were proposed in the March 2012 budget to reduce the main rate to 22% by 1 April 2014. These further reductions had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

7 Tangible fixed assets

	Leasehold Improvements £	Plant & machinery £	Fixtures & fittings £	Computer equipment £	Assets in the course of construction £	Total £
Cost						
At 1 January 2011	217,246	166,532	139,578	987,024	-	1,510,380
Additions	-	17,994	-	216,120	152,788	386,902
Disposals	-	(4,609)	(363)	(10,288)	-	(15,260)
At 31 December 2011	217,246	179,917	139,215	1,192,856	152,788	1,882,022
Depreciation						
At 1 January 2011	83,951	65,847	66,830	417,802	-	634,430
Charge for the year	74,692	51,796	52,014	322,275	-	500,777
On disposals	-	(2,542)	(212)	(5,319)	-	(8,073)
At 31 December 2011	158,643	115,101	118,632	734,758	-	1,127,134
Net book value						
At 31 December 2011	58,603	64,816	20,583	458,098	152,788	754,888
At 31 December 2010	133,295	100,685	72,748	569,222	-	875,950

8. Debtors

	2011 £	2010 £
Trade debtors	-	28,000
Amounts owed by group undertakings	2,078,721	2,375,046
Corporation tax	160,198	-
Other debtors	237,122	122,461
Prepayments and accrued income	215,918	180,679
Deferred tax asset (see note 11)	3,914,910	-
	6,606,869	2,706,186

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

9 Creditors. Amounts falling due within one year

	2011 £	2010 £
Trade creditors	405,597	523,793
Amounts owed to group undertakings	64,264	-
Corporation tax	-	149,912
Other taxation and social security	374,684	336,491
Accruals and deferred income	1,779,235	1,591,459
	<u>2,623,780</u>	<u>2,601,655</u>

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand

10. Creditors. amounts falling due after more than one year

	2011 £	2010 £
Amounts owed to group undertakings	<u>1,261,737</u>	<u>1,261,737</u>

Amounts owed to group undertaking 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 balance sheet date

11 Deferred taxation

	2011 £	2010 £
At beginning of year	(22,464)	(50,552)
Charged during year (see note 6)	3,937,374	28,088
	<u>3,914,910</u>	<u>(22,464)</u>

The deferred taxation balance is made up as follows

	2011 £	2010 £
Accelerated capital allowances	61,757	(22,464)
Timing differences on share based payments	3,853,153	-
	<u>3,914,910</u>	<u>(22,464)</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

12. Share capital

	2011 £	2010 £
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

13 Reserves

	Profit and loss account £
At 1 January 2011	1,473,932
Loss for the financial year	(10,229,869)
Reserve credit for share based payment plan	15,443,334
At 31 December 2011	<u>6,687,397</u>

14. Reconciliation of movement in shareholders' funds

	2011 £	2010 £
Opening shareholders' funds	1,474,932	796,932
Loss for the financial year	(10,229,869)	678,000
Reserve credit for share based payment plan	15,443,334	-
Closing shareholders' funds	<u>6,688,397</u>	<u>1,474,932</u>

15. Net cash flow from operating activities

	2011 £	2010 £
Operating (loss)/profit	(13,931,663)	1,074,563
Share based payment charge	15,443,334	-
Depreciation of tangible fixed assets	500,777	442,727
Decrease/(increase) in debtors	174,425	(956,937)
Increase in creditors	172,037	374,088
Net cash inflow from operating activities	<u>2,358,910</u>	<u>934,441</u>

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

16 Analysis of cash flows for headings netted in cash flow statement

	2011 £	2010 £
Returns on investments and servicing of finance		
Interest received	2,737	-
	<u>2,737</u>	<u>-</u>
	2011 £	2010 £
Taxation		
Corporation tax paid	(548,427)	(494,739)
	<u>(548,427)</u>	<u>(494,739)</u>
	2011 £	2010 £
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(386,902)	(541,159)
Sale of tangible fixed assets	7,187	-
	<u>(379,715)</u>	<u>(541,159)</u>
Net cash outflow from capital expenditure	(379,715)	(541,159)

17 Analysis of changes in net funds

	1 January 2011 £	Cash flow £	31 December 2011 £
Cash at bank and in hand	1,778,652	1,433,505	3,212,157
	<u>1,778,652</u>	<u>1,433,505</u>	<u>3,212,157</u>
Net funds	1,778,652	1,433,505	3,212,157

18 Share based payments

At 31 December 2011 Facebook, Inc had one active stock based employee compensation plan (The 2005 Stock Plan, as amended in December 2010 ("2005 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 2005 Plan, permits the grant of RSUs over ordinary shares (class B common stock) in Facebook, Inc. RSUs granted under the 2005 Plan generally have a stated expiration, if not exercised, ten years after the date of grant. The per share exercise price of RSUs granted is generally nil.

The fair value of each RSU is estimated on the date of grant using the Black-Scholes valuation model, incorporating key assumptions on volatility and expected option lives based on analysis of historical indicators. Forfeitures are estimated based on historical indicators.

RSUs are granted to employees under the 2005 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.

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

Prior to 2010 RSUs were earned on a monthly schedule with vesting subject to an initial vesting event 25% of the shares would vest on the first anniversary of the vesting event and 2.083% per month thereafter. RSUs granted after 1 January 2010 vest quarterly, with 25% of the shares vesting on the first anniversary of the initial vesting event and 6.25% per quarter thereafter.

Prior to 1 January 2011 an initial vesting event is defined as either (i) the date that is six months after the effective date of an initial public offering of Facebook Inc securities or (ii) the date of a change in control of Facebook, Inc. After 1 January 2011 an initial vesting event is defined as either (i) 31 December 2013 or (ii) an earlier date between 1 January 2013 and 31 December 2013 that is specified by Facebook, Inc or (iii) the date of a change in control of Facebook, Inc.

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, all with an exercise price of £nil, are as follows:

	RSUs Number
Outstanding at 1 January 2011	6,907,615
Granted	657,190
Exercised	(118,336)
Forfeited	(147,315)
	<hr/>
Outstanding at 31 December 2011	7,299,154
	<hr/> <hr/>
Exercisable at 31 December 2011	5,402,395
	<hr/> <hr/>
Weighted average remaining contractual life (years)	9.28
	<hr/> <hr/>

The fair value of RSUs granted in the year was £16.23 (US\$26.02)

The weighted average share price during the year for RSUs exercised was £11.23 (US\$18.05)

The total charge for the year relating to employee share based payment plans was £15,443,334 (US\$24,764,807)

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

The weighted average fair value of RSUs granted (determined using the Black-Scholes valuation model) and the assumptions used in the calculation are as follows for each RSU available

	RSUs 2011
Grant date	23/04/2011
Share price at grant date	£16.23 (US\$26 02)
Exercise price	-
Number of employees - granted	106
RSUs granted	657,190
Vesting periods (years)	4.51
Expected volatility	41.00%
RSU life (years)	10.00
Expected life (years)	2.46
Risk free rate	0.95%
Expected dividends expressed as a dividend yield	-
Weighted average fair value per RSU granted	<u>£16.23 (US\$26 02)</u>

Risk free rate

The risk free rate was based on the US Treasury zero-coupon yield curve on the grant date for a term similar to the expected life of the RSUs

Expected dividend yield

Facebook Inc has not paid dividends in the past and does not anticipate paying any cash dividends in the foreseeable future, therefore a dividend yield of zero is expected

Expected volatility

The expected volatility of the ordinary shares was based on historical volatility of the internal measure of share price over the expected life of the applicable RSU

The company made the decision to use historical volatility due to the limited availability of actively traded RSUs over ordinary shares from which to derive implied volatility

Expected term

The expected term is derived by analysing historic employee exercise and termination data. The company believes that historic data currently represents the best estimate of the expected life of a new employee RSU

Facebook UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

RSUs outstanding at the end of the year have the following expiry dates and exercise prices

	Expiry in year	RSUs Number
Vesting period		
4 years	2016	15,000
4 years	2017	104,859
4 years	2018	3,965,625
4 years	2019	1,423,735
4 years	2020	1,156,465
4 years	2021	304,000
5 years	2021	<u>329,470</u>
Total RSUs outstanding at 31 December 2011		<u><u>7,299,154</u></u>

19. Operating lease commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2011 £	2010 £
Expiry date:		
Within 1 year	268,629	-
Between 2 and 5 years	-	400,858
	<u><u>268,629</u></u>	<u><u>400,858</u></u>

During the year the company entered into a new lease for which payment will not commence until 2013 due to a rent free period

20. Related party transactions

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Facebook Inc

21. Immediate parent undertaking and ultimate controlling party

The company's immediate parent undertaking is Facebook Global Holdings II LLC, a company registered in the United States of America Facebook Global Holdings II LLC does not prepare publicly available consolidated financial statements

The company's ultimate parent undertaking is Facebook Inc, a company registered in the United States of America Facebook Inc prepares consolidated financial statements which are publicly available at investor.fb.com