

Go Daddy Europe Limited

Report and Financial Statements

31 December 2018

Registered no. 6157133



Go Daddy Europe Limited

Directors and officers

Directors

Nima Jacobs Kelly
Jessica Hately
Paul McDowell

Secretary

Taylor Wessing Secretaries Limited

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Bank of America
2 King Edward Street
London EC1A 1HQ

Registered Office

5th Floor, The Shipping Building
The Old Vinyl Factory, 252-254 Blyth Road
Hayes UB3 1HA

Company Number

6157133

Strategic report

The directors present their strategic report on the company for the year ended 31 December 2018.

Review of the business

The company's principal activity during the year was the provision of sales and support for internet related products and services, for the United Kingdom (UK) customers of its immediate parent company Desert Newco, LLC, and other administrative services. The company had eight employees at 31 December 2018 and eight employees at 31 December 2017.

The results of the company for the year, as set out on page 9 and 10, show a profit on ordinary activities before tax of \$1,040,005 (2017: \$1,040,700). The tax benefit was \$24,881 (2017: \$(2,016,570)). The shareholders' funds of the company total \$1,372,271 (2017: \$5,491).

The company has financial KPIs which it monitors on a regular basis at board level and, where relevant, at business unit management meetings as follows:

| | Year ended 31 December 2018 \$'000 | Year ended 31 December 2017 \$'000 |
|---------------------|---------------------------------------|--|
| Turnover | 25,156 | 20,336 |
| Gross Profit | 9,909 | 10,267 |
| Gross Profit Margin | 39.4% | 50.49% |
| Profit before Tax | 1,040 | 1,041 |

The Company's business strategy is dependent on the parent entities market focus on selling business application internet related products and services to customers in the United Kingdom. The market focus on United Kingdom customers was evident in the 20% growth in revenues period over period. The decline in gross profit year over year was attributable to an increase in the cost of software licenses purchased from the Company's third party vendor.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the company and compliance team and finance department take on an important oversight role in this regard. The Board is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

The Company has developed a framework for identifying the risks the company is exposed to and their impact on economic capital. The principal risks from our business arises from demand from the UK customers of our parent company and foreign currency fluctuations. The level of profitability in the coming year will primarily be dependent on the volume of credit card payment processing from the UK customers of our parent company.

Future developments

The company plans to continue its existing activities.

Approved by the Board on 27 September 2019 and signed on its behalf by:

Go Daddy Europe Limited

Strategic report

By order of the board


Jessica Hately

27 September 2019

Statement of directors' responsibilities

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Dividends

The directors do not recommend the payment of a dividend (2017: nil).

Directors

The names of the current directors are listed on page 1. Mrs. Jessica Hately and Mr. Paul McDowell were appointed on 15, June 2018. Mr Simon Conyers was appointed on 19 June 2018 and then terminated effective on 17 October 2018. Erin Eileén O'Shea was terminated effective 3 June 2018. Mrs. Rebecca Morrow resigned as director as of July 31, 2019.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

The company is profit making and has net current assets and net assets. In assessing whether the going concern basis is appropriate, the directors take into account all available information about the future, which is at least, but is not limited to, 12 months from the date of approval of these financial statements. The directors have performed this review at a company level and have also performed a review for the entire group as disclosed in the financial statements of the ultimate parent company, GoDaddy Inc.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

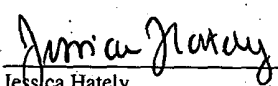
Thus they continue to adopt the going concern basis in preparing these financial statements.

Further details on the adoption of the going concern basis can be found in note 1 to the financial statements.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution that they will be re-appointed will be proposed at the Annual General Meeting.

By order of the Board


Jessica Hately
Director
27 September 2019

Statement of directors' responsibilities

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 such financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the directors must not approve the financial statements unless 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 Financial Reporting Standard 101 Reduced Disclosure Framework has 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.

Independent auditor's report

to the members of Go Daddy Europe Limited

Opinion

We have audited the financial statements of Go Daddy Europe Limited for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17, including a 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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 directors' 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.

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.

Independent auditor's report

to the members of Go Daddy Europe Limited

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 the 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 directors' 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 returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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 the directors 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 the directors either intend to liquidate the company or to cease operations, or have 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

Independent auditor's report

to the members of Go Daddy Europe Limited

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.



Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 September 2019

Profit and loss account

For the year ended 31 December 2018

| | <i>Note</i> | <i>2018</i> | <i>2017</i> |
|--|-------------|-------------------|--------------------|
| | | <i>\$</i> | <i>\$</i> |
| Turnover | 3 | 25,155,556 | 20,335,530 |
| Cost of Sales | | <u>15,246,868</u> | <u>10,068,868</u> |
| Gross Profit | | 9,908,688 | 10,266,662 |
| Administrative expenses | | <u>8,999,820</u> | <u>9,227,942</u> |
| Operating Profit | 5 | 908,868 | 1,038,720 |
| Interest receivable and similar income | | <u>131,138</u> | <u>1,980</u> |
| Profit on ordinary activities before taxation | | 1,040,006 | 1,040,700 |
| Tax | 6 | <u>24,881</u> | <u>(2,016,570)</u> |
| Profit/loss for the financial period | | <u>1,064,887</u> | <u>(975,870)</u> |

The above results were derived from continuing operations.

The company has no recognised gains or losses for the period other than the results above. Therefore, no statement of comprehensive income has been presented.

Balance sheet

at 31 December 2018

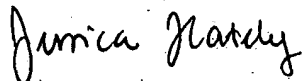
| | <i>Note</i> | <i>2018</i> | <i>2017</i> |
|---|-------------|-------------------|-------------------|
| | | <i>\$</i> | <i>\$</i> |
| <i>Non-current assets</i> | | | |
| Tangible fixed assets | 8 | - | 6,940 |
| Deferred tax assets | 7 | 125,512 | 100,631 |
| Investment in subsidiary | 9 | 593,346 | 593,346 |
| Other debtors | 10 | 1,573 | 7,230 |
| <i>Total non-current assets</i> | | 720,431 | 708,147 |
| <i>Current assets</i> | | | |
| Cash at bank and in hand | | 27,904,956 | 9,384,378 |
| Debtors | | - | 6,894,760 |
| Income tax receivable | | 1,368,118 | - |
| Other assets | 11 | 28,068 | 1,899 |
| <i>Total current assets</i> | | 29,301,142 | 16,281,037 |
| <i>Total assets</i> | | 30,021,573 | 16,989,184 |
| <i>Current Liabilities</i> | | | |
| Creditors: amounts falling due within one year | 12 | 14,397,694 | 5,984,893 |
| Deferred revenue | 13 | 12,123,806 | 9,260,319 |
| <i>Total current liabilities</i> | | 26,521,500 | 15,245,212 |
| <i>Net current assets</i> | | 2,779,642 | 1,035,825 |
| <i>Total assets less current liabilities</i> | | 3,500,073 | 1,743,972 |
| Deferred revenue, long term | 13 | 2,127,802 | 1,738,481 |
| <i>Total net assets</i> | | 1,372,271 | 5,491 |
| <i>Capital and reserves</i> | | | |
| Called up share capital | | 3,507 | 3,507 |
| Share based payment reserve | | 701,551 | 399,658 |
| Profit and loss account | | 667,213 | (397,674) |
| <i>Shareholders' Funds</i> | | 1,372,271 | 5,491 |

Go Daddy Europe Limited

Balance sheet

at 31 December 2018

The financial statements of Go Daddy Europe Limited (registration number: 6157113) were approved by the Board and authorised for issues on 27 September 2019. They were signed on its behalf by:



Jessica Hately
Director

Company Registration No. 6157133

Statement of Changes in Equity

at 31 December 2018

| | <i>Share capital</i> | <i>Share Based Payment Reserve</i> | <i>Profit and loss account</i> | <i>Share- holders' funds</i> |
|----------------------------|--------------------------|--|------------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ |
| At 1 January 2017 | 3,507 | 373,504 | 578,196 | 955,207 |
| Share based payment | - | 26,154 | - | 26,154 |
| Profit (Loss) for the year | - | - | (975,870) | (975,870) |
| | - | - | - | - |
| At 31 December 2017 | <u>3,507</u> | <u>399,658</u> | <u>(397,674)</u> | <u>5,491</u> |
| | - | - | - | - |
| | - | - | - | - |
| At 1 January 2018 | 3,507 | 399,658 | (397,674) | 5,491 |
| Share based payment | - | 301,893 | - | 301,893 |
| Profit (Loss) for the year | - | - | 1,064,887 | 1,064,887 |
| | - | - | - | - |
| At 31 December 2018 | <u>3,507</u> | <u>701,551</u> | <u>667,213</u> | <u>1,372,271</u> |

Notes to the financial statements

At 31 December 2018

1. General Information

Go Daddy Europe Ltd. (the "Company") is a private company limited by shares incorporated in England and Wales and domiciled in the United Kingdom under the Companies Act 2006.

The address of its registered office is:

5th Floor, The Shipping Building
The Old Vinyl Factory, 252-254 Blyth Road
Hayes UB3 1HA

Going Concern

The company has net current assets of \$2,779,642 as set out in the balance sheet on page 10.

In assessing whether the going concern basis is appropriate, the directors take into account all available information about the future, which is at least, but is not limited to, 12 months from the date of approval of these financial statements. The directors have performed this review at a company level and have also performed a review for the entire group as disclosed in the accounts of the ultimate parent company, GoDaddy Inc.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

2. Accounting policies

Basis of preparation

The financial statements are presented in United States Dollars (\$), which is the functional currency of the company.

The preparation of financial statements in compliance with FRS 102 requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amount reported for revenues and expenses during the year.

There were no judgements or material estimation uncertainties affecting the reported financial performance in the current or prior year.

Financial reporting standard 102- reduced disclosure exemption

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland.

- the requirements of Section 4 – Statement of Financial Position, paragraph 4.12(a)(iv);
- the requirements of Section 7 – Statement of Cash Flows – and Section 3 – Financial Statement Presentation, paragraph 3.17(d);

Notes to the financial statements

At 31 December 2018

2. Accounting policies (continued)

- the requirements of Section 11, paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and
- the requirements of Section 12, paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 – Share-based Payment, paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirement of Section 33 – Related Party Disclosures, paragraph 33.7.

This information is included in the consolidated financial statements of GoDaddy Inc. as at 31 December 2018 and these financial statements may be obtained from 14455 N. Hayden Rd, Scottsdale, AZ 85260.

Basis of Consolidation

The consolidated financial statements of the Company and its subsidiary companies have not been presented because the Company is itself a wholly-owned subsidiary company. The entity meets the criteria in Company's Act 2006, s400 and is therefore exempt from consolidating. The entity is consolidated with the consolidated financial statements of GoDaddy, Inc.

Taxation

Tax is recognized in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such

Notes to the financial statements

At 31 December 2018

2. Accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to US Dollars at the rate of exchange at the balance sheet date. Exchange gains and losses are recognized in the Profit and Loss Account. The functional currency for the Company is the US Dollars due to it being the currency used in the primary economic environment in which the parent entity operates.

Fixed assets and depreciation

The cost of fixed assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these fixed assets to be between 2 to 5 years.

Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss

Notes to the financial statements

At 31 December 2018

2. Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

(if any). Where the asset does not generate cash flows that are independent from other assets, the company

estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the financial statements

At 31 December 2018

2. Accounting policies (continued)

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Notes to the financial statements

At 31 December 2018

2. Accounting policies (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 102 s11.48A (b)

Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.