

Company Registration No. 08430008 (England and Wales)

WHAT3WORDS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2017

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WHAT3WORDS LIMITED

COMPANY INFORMATION

Directors	C Sheldrick J Waley-Cohen J Lazar A Guefor M Alsagar G Massing	(Appointed 28 December 2017)
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Company number	08430008
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Registered office	Dewmead House Hinxworth Baldock Herts SG7 5HD
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Auditor	KPMG LLP 15 Canada Square London E14 5GL
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WHAT3WORDS LIMITED

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WHAT3WORDS LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2017

The directors present their strategic report accompanying the financial statements for the period ended 31 December 2017.

The company's principal activities during the year continued to be the research, development and commercialisation of the what3words universal addressing / location referencing system.

Fair review of the business

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

The company's loss for the period was £2,797,611 (31 July 2017 restated: £5,298,947), due only to increased operating expenses from growth.

The company has net assets of £24,608,901 (31 July 2017: £7,847,307), with a cash balance at year end of £23,528,364 (31 July 2017: £6,839,754), assets increased due to investment in intangibles, R&D tax credit and VAT debtors, pre-payments and cash from investment.

The company's quick ratio ((cash + accounts receivable)/current liabilities) as at 31 December 2017 was 37.0 (31 July 2017 restated: 12.9), higher due to an increase in cash from investment.

Shareholders' funds increased by 214% due to new shares issued as part of the company's Series C funding round.

During the period, the company continued to record revenue from the sale of its core product (an enterprise software system for the bi-directional conversion of GPS coordinates to 3 word addresses) in the form of annual licence fees. The company also continued its strategy of pursuing commercialisation activity in local markets around the world, alongside working with significant global businesses.

Full time employees increased from 36 at 31 July 2017 to 46 at 31 December 2017. This was due to the building out of key teams across the business.

Going concern

After reviewing the company's cash balance against forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

WHAT3WORDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as commercial and behavioural change risk.

Commercial risk – the scale-up and success of the business is dependent on the development, conversion and retention of a pipeline of commercial contracts to take the business cash flow positive.

Behavioural change risk – the company has created a new addressing format, with the aim of becoming a universal standard for location referencing. A key aspect of this is converting and retaining a high volume of new consumers, and so driving network effects and consumer behaviour change.

It is possible that there will be future exposure to foreign exchange risk, although currently overseas foreign currency expenses are not at a sufficient level to be material.

On behalf of the board



J Waley-Cohen

Director

19/9/2018

WHAT3WORDS LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the period ended 31 December 2017.

Principal activity

The principal activity of the company is the development and commercialisation of the company's 3 word address system.

Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

C Sheldrick
J Waley-Cohen
M Sanderson
C Smart
J Lazar
A Guefor
M Alsagar
G Massing

(Resigned 25 June 2018)

(Resigned 1 July 2018)

(Appointed 28 December 2017)

Proposed dividends

The directors do not recommend the payment of a dividend for the financial period ending 31 December 2017 (July 2017: £nil).

Political donations

During the period the company has not made any political or charitable donations or contributions (July 2017: £nil).

Financial instruments

The company is not exposed to any significant risks in relation to financial instruments.

Research and development

The company continues to invest heavily in research and development activities, including the development of new B2B and B2C product concepts, map compression technology, voice recognition addressing systems, optical character recognition systems, and the preparation and research to launch products in new languages.

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth and increased commercial traction in recent years. They consider that the next year will show a significant growth in sales from continuing operations, particularly from the sale of core products in Europe and the rest of the world.

Post reporting date events

On 2 April 2018 the company signed a lease agreement for a period of 5 years (with the ability to break at the end of years 2, 3 and 4) with Great Western Studios Limited at a rate of £706,200 per annum (albeit with the first three months rent free). The company also gave notice on its previous premises.

WHAT3WORDS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board



.....
J Waley-Cohen

Director

..... 19/9/2018

WHAT3WORDS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WHAT3WORDS LIMITED

Opinion

We have audited the financial statements of what3words Limited ("the company") for the five month period ended 31 December 2017 which comprise the profit and loss account, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and related notes, including the accounting policies in note1.

in our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF WHAT3WORDS LIMITED

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Craig Douglas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

20 September 2018

WHAT3WORDS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 DECEMBER 2017

		Period ended 31 December 2017	Year ended 31 July 2017 as restated (see note 1.2)
	Notes	£	£
Turnover	3	91,779	20,336
Administrative expenses		(3,097,243)	(5,809,157)
Other operating income		85,222	1,243
		<hr/>	<hr/>
Operating loss	4	(2,920,242)	(5,787,578)
Interest receivable and similar income	8	11,422	19,813
		<hr/>	<hr/>
Loss before taxation		(2,908,820)	(5,767,765)
Taxation	9	111,209	468,818
		<hr/>	<hr/>
Loss for the financial period		(2,797,611)	(5,298,947)
		<hr/>	<hr/>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 13 to 27 form an integral part of these financial statements.

WHAT3WORDS LIMITED**STATEMENT OF COMPREHENSIVE INCOME****FOR THE PERIOD ENDED 31 DECEMBER 2017**

	Period ended 31 December 2017 £	Year ended 31 July 2017 as restated (see note 1.2) £
Loss for the period	(2,797,611)	(5,298,947)
Other comprehensive income net of taxation	-	-
Total comprehensive loss for the period	<u>(2,797,611)</u>	<u>(5,298,947)</u>

The notes on pages 13 to 27 form an integral part of these financial statements.

WHAT3WORDS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2017

		31 December 2017		31 July 2017 as restated (see note 1.2)	
	Notes	£	£	£	£
Fixed assets					
Intangible assets	10		920,969		654,007
Tangible assets	11		74,937		56,949
			<u>995,906</u>		<u>710,956</u>
Current assets					
Debtors	13	721,276		829,624	
Cash at bank and in hand		<u>23,528,364</u>		<u>6,839,754</u>	
		24,249,640		7,669,378	
Creditors: amounts falling due within one year	14	<u>(636,645)</u>		<u>(533,027)</u>	
Net current assets			<u>23,612,995</u>		<u>7,136,351</u>
Net assets			<u>24,608,901</u>		<u>7,847,307</u>
Capital and reserves					
Called up share capital	18		302		239
Share premium account			34,773,399		15,680,356
Share based payment reserve	16		1,501,918		1,035,819
Profit and loss account			<u>(11,666,718)</u>		<u>(8,869,107)</u>
Shareholder funds			<u>24,608,901</u>		<u>7,847,307</u>

The notes on pages 13 to 27 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 19/9/2018 and are signed on its behalf by:



J Waley-Cohen
Director

Company Registration No. 08430008

WHAT3WORDS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2017

		Share capital	Share premium account	Share based payment reserve	Profit and loss account	Total
	Notes	£	£	£	£	£
As restated for the year ended 31 July 2016 (see note 1.2)		210	9,221,935	150,020	(3,570,160)	5,802,005
Year ended 31 July 2017:						
Total comprehensive loss for the period (as restated)		-	-	-	(5,298,947)	(5,298,947)
Issue of ordinary share capital	18	6	1,166,835	-	-	1,166,841
Issue of preference share capital	18	23	5,291,586	-	-	5,291,609
As restated equity settled share based payment transactions (see note 1.2)	16	-	-	885,799	-	885,799
As restated balance at 31 July 2017 (see note 1.2)		239	15,680,356	1,035,819	(8,869,107)	7,847,307
Period ended 31 December 2017:						
Total comprehensive income for the period		-	-	-	(2,797,611)	(2,797,611)
Issue of ordinary share capital	18	2	491,427	-	-	491,429
Issue of preference share capital	18	61	18,732,575	-	-	18,732,636
Costs relating to share issue		-	(130,959)	-	-	(130,959)
Equity settled share based payment transactions	16	-	-	466,099	-	466,099
Balance at 31 December 2017		302	34,773,399	1,501,918	(11,666,718)	24,608,901

The notes on pages 13 to 27 form an integral part of these financial statements.

WHAT3WORDS LIMITED

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2017

		31 December 2017		31 July 2017	
	Notes	£	£	£	£
Cash flows from operating activities					
Cash absorbed by operations	22		(2,257,232)		(4,555,829)
Income taxes refunded			201,524		-
Net cash outflow from operating activities			(2,055,708)		(4,555,829)
Investing activities					
Purchase of intangible assets		(331,600)		(578,241)	
Purchase of tangible fixed assets		(28,609)		(58,824)	
Proceeds on disposal of tangible fixed assets		-		1,430	
Interest received	8	11,422		19,813	
Net cash used in investing activities			(348,787)		(615,822)
Financing activities					
Proceeds from issue of shares		19,093,105		6,458,450	
Net cash generated from financing activities			19,093,105		6,458,450
Net increase in cash and cash equivalents			16,688,610		1,286,799
Cash and cash equivalents at beginning of period			6,839,754		5,552,955
Cash and cash equivalents at end of period			23,528,364		6,839,754

The notes on pages 13 to 27 form an integral part of these financial statements.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

what3words Limited is a private company limited by shares incorporated in England and Wales. The registered office is Dewmead House, Hinxworth, Baldock, Herts, SG7 5HD.

1.1 Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Prior year adjustment

During the current period, the directors have reviewed the share-based payments charge for the previous periods. This review was performed because management identified during the current period that certain non-employee option holders were not included in the list of option holders used to calculate the share based payment charge in prior periods. Consequently, management performed a detailed review of the completeness of option holders, adequacy of the option valuation techniques and correctness of the charge in the current and prior periods. In addition, following the identification of additional option holders, the calculation method adopted to arrive at the final charge for the current and prior periods has been updated. As a result of these reviews, the share-based payment in the prior periods has been increased. For the effect of the prior period adjustment on individual financial statement items, please refer to note 17.

1.3 Going concern

The company meets its day to day working capital requirements through the continued support of its investors. The directors have pledged their continued support to the company for the foreseeable future and on this basis the directors consider it appropriate to prepare these financial statements on a going concern basis. The directors believe that further investment from existing or new investors will be achievable to the level necessary to support the company for the foreseeable future.

Despite the loss making position of the company (loss of £2,797,611 for the period ended 31 December 2017), the directors have prepared the financial statements on a going concern basis which they believe to be appropriate for the reasons set out below.

In the five months ended 31 December 2017, the company received equity investments totalling £19,093,105. Further in 2018, the company has received equity investments totalling £5,253,475.

The directors believe that based on the company's cash balance at year end and the current cash burn rate, the company has sufficient liquidity to continue as a going concern for the foreseeable future. In addition, the directors consider that the business will turn cash flow positive in accordance with the business plan which is based on driving revenue growth from global partnership deals, enabled by expanding the company's operations globally and regionally. Specifically the company intends to increase headcount at the company's headquarters, and in a number of focus regions, to increase marketing and sales expenditure, and to increase investment in IP (technology and product).

1.4 Reporting period

The company is preparing these accounts for a 5 month period to 31 December 2017. The year end has been shortened to bring the accounts in line with the calendar year. The comparative amounts presented in the financial statements are therefore not comparable.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

1 Accounting policies

1.5 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the issue of software licences is recognised when the first payment for the annual licence is received and is deemed to accrue evenly over the following 12 months.

Rental recharges are recognised on the date of receipt.

Other income consists of grant income and prize money received in the year and is recorded when the income is received.

Revenue from marketing services is recognised upon completion of relevant services to the customer.

1.6 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.7 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost or value of the asset can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Patents and Trademarks	5-20% straight line
Development Costs	20% straight line

Intangible assets, other than those held at fair value, which are dealt with through profit and loss, are assessed for indicators of impairment at each reporting end date.

1.8 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Tangible fixed assets are stated at cost less depreciation. Cost represents all expenditure incurred in bringing the asset into a condition for its intended purpose. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	over the term of the lease
Fixtures, fittings & equipment	25% reducing balance
Computer equipment	33.33% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

1 Accounting policies

1.9 Impairment of fixed assets

At each reporting period end 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 in order to determine the extent of the impairment loss (if any).

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.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments.

1.11 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

1 Accounting policies

1.12 Equity instruments

Equity Instruments Issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.13 Taxation

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 profit and loss account 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 reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.15 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.16 Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

1 Accounting policies

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

1.17 Leases

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.18 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	31 December 2017 £	31 July 2017 £
Turnover		
Software licence sales	28,273	10,336
Custom map	-	10,000
Software one time sales	37,041	-
Sales of 3 word address signs	7,465	-
Marketing services contribution	19,000	-
	<u>91,779</u>	<u>20,336</u>

Turnover analysed by geographical market

	31 December 2017 £	31 July 2017 £
UK	2,741	10,017
Rest of the world	89,038	10,319
	<u>91,779</u>	<u>20,336</u>

4 Operating loss

	31 December 2017 £	31 July 2017 as restated (see note 1.2) £
Operating loss for the year is stated after charging for non cash items:		
Exchange losses	5,866	1,045
Depreciation of owned tangible fixed assets	10,622	11,596
Loss on disposal of tangible fixed assets	-	403
Amortisation of intangible assets	64,638	53,455
Impairment of intangible assets	-	117,646
Share-based payments	466,099	885,799
Operating lease charges	78,869	126,389
	<u>626,094</u>	<u>1,196,333</u>

5 Auditor's remuneration

	31 December 2017 £	31 July 2017 £
Fees payable to the company's auditor:		
For audit services		
Audit of the financial statements of the company	<u>22,000</u>	<u>17,000</u>

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

6 Staff costs

The average monthly number of persons (including directors) employed by the company during the period was:

	31 December 2017 Number	31 July 2017 Number
Administration	33	23
Management	9	9
	<u>42</u>	<u>32</u>

Their aggregate remuneration comprised:

	31 December 2017 £	31 July 2017 as restated (see note 1.2) £
Wages and salaries	1,535,623	2,770,836
Social security costs	128,476	189,695
Pension costs	8,744	-
	<u>1,672,843</u>	<u>2,960,531</u>

As total directors' remuneration was less than £200,000 in the current period, no disclosure is provided for that period.

7 Directors' remuneration

	31 December 2017 £	31 July 2017 £
Remuneration for qualifying services	<u>106,213</u>	<u>242,407</u>

During the period no share options were exercised by directors. The fair value of these exercised options as at 31 December 2017 was Nil (31 July 2017: £0.58).

The remuneration disclosed above includes the following amounts paid to the highest paid director:

	31 December 2017 £	31 July 2017 £
Remuneration for qualifying services	<u>-</u>	<u>117,852</u>

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

8 Interest receivable and similar income

	31 December 2017 £	31 July 2017 £
Interest income		
Interest on bank deposits	11,422	19,813

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	11,422	19,813
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9 Taxation

	31 December 2017 £	31 July 2017 £
Current tax		
UK corporation tax on profits for the current year	(147,079)	(468,818)
Adjustments in respect of prior periods	35,870	-
Total current tax	(111,209)	(468,818)

The actual credit for the period can be reconciled to the expected credit for the period based on the profit or loss and the standard rate of tax as follows:

	31 December 2017 £	31 July 2017 as restated (see note 1.2) £
Loss before taxation	(2,908,820)	(5,767,765)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.67%)	(552,676)	(1,134,519)
Tax effect of expenses that are not deductible in determining taxable profit	15,000	43,181
Unutilised tax losses carried forward	368,742	758,250
Research and development tax credit	(63,286)	(155,411)
Other permanent differences	85,141	161,205
Over/(under) provided in prior years	35,870	(141,524)
Taxation credit for the period	(111,209)	(468,818)

The company has estimated losses of £8,190,708 (31 July 2017 restated: £6,249,963) available for carry forward against future profits.

A net deferred tax asset of £1,585,097 (31 July 2017 restated: £1,176,673) has not been recognised as the asset is not expected to crystallise in the foreseeable future.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

9 Taxation

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

10 Intangible fixed assets

	Patents and Trademarks £	Development Costs £	Total £
Cost			
At 1 August 2017	459,332	485,552	944,884
Additions - separately acquired	219,974	111,626	331,600
At 31 December 2017	679,306	597,178	1,276,484
Amortisation and impairment			
At 1 August 2017	30,841	260,036	290,877
Amortisation charged for the period	21,210	43,428	64,638
At 31 December 2017	52,051	303,464	355,515
Carrying amount			
At 31 December 2017	627,255	293,714	920,969
At 31 July 2017	428,491	225,516	654,007

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

11 Tangible fixed assets

	Leasehold improvements	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£
Cost				
At 1 August 2017	11,950	18,670	38,352	68,972
Additions	-	9,417	19,192	28,609
At 31 December 2017	11,950	28,087	57,544	97,581
Depreciation and impairment				
At 1 August 2017	853	4,411	6,758	12,022
Depreciation charged in the period	2,103	1,977	6,542	10,622
At 31 December 2017	2,956	6,388	13,300	22,644
Carrying amount				
At 31 December 2017	8,994	21,699	44,244	74,937
At 31 July 2017	11,097	14,259	31,593	56,949

12 Financial instruments

	31 December 2017 £	31 July 2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	106,119	96,858
Carrying amount of financial liabilities		
Measured at amortised cost	539,552	437,396

13 Debtors

	31 December 2017 £	31 July 2017 £
Amounts falling due within one year:		
Trade debtors	55,352	52,336
Corporation tax recoverable	438,503	528,818
Other debtors	111,214	144,491
Prepayments and accrued income	116,207	103,979
	721,276	829,624

The corporation tax debtor relates to tax credits receivable on research and development expenditure.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

14 Creditors: amounts falling due within one year

	31 December 2017 £	31 July 2017 £
Trade creditors	346,749	272,834
Other taxation and social security	97,093	95,631
Other creditors	30,018	18,773
Accruals and deferred income	162,785	145,789
	<u>636,645</u>	<u>533,027</u>

15 Retirement benefit schemes

	31 December 2017 £	31 July 2017 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	<u>8,744</u>	<u>-</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

16 Share-based payment transactions

The number of employee and non-employee share options and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
	31 December 2017	31 December 2017	31 July 2017	31 July 2017
	£	as restated (see note 1.2)	£	
Outstanding	2,329	968	2,329	221
Granted	-	-	2,329	841
Forfeited	-	-	(2,329)	(36)
Exercised	-	-	(2,329)	(58)
Outstanding	<u>2,329</u>	<u>968</u>	<u>2,329</u>	<u>968</u>
Exercisable	<u>2,329</u>	<u>310</u>	<u>2,329</u>	<u>93</u>

The employee share options outstanding at 31 December 2017 had an exercise price of £0.01 and a remaining contractual life ranging from 1 - 4 years.

During the period, the company recognised total share-based payment expenses of £466,099 (31 July 2017 restated: £885,799) which related to equity-settled share-based payment transactions.

See note 1.2.

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

17 Prior period adjustment

Changes to the balance sheet

	Impact of correction of errors		
	As previously reported	Adjustment	As restated
As at 31 July 2016			
Net Assets	5,802,005	-	5,802,005
Capital and reserve	210	-	210
Share premium account	9,221,935	-	9,221,935
Share based payment reserve	28,583	121,437	150,020
Profit and Loss Account	<u>(3,448,723)</u>	<u>(121,437)</u>	<u>(3,570,160)</u>
Total Equity as at 31 July 2016	<u>5,802,005</u>	<u>-</u>	<u>5,802,005</u>
As at 31 July 2017			
Net Assets	7,847,307	-	7,847,307
Capital and reserve	239	-	239
Share premium account	15,680,356	-	15,680,356
Share based payment reserve	129,366	906,453	1,035,819
Profit and Loss Account	<u>(7,962,654)</u>	<u>(906,453)</u>	<u>(8,869,107)</u>
Total Equity as at 31 July 2017	<u>7,847,307</u>	<u>-</u>	<u>7,847,307</u>

Changes to the profit and loss account

	Period ended 31 July 2017		
	As previously reported	Adjustment	As restated
	£	£	£
Share based payments	(100,783)	(785,016)	(885,799)
Administrative expenses	<u>(5,024,141)</u>	<u>(785,016)</u>	<u>(5,809,157)</u>
Loss for the financial period	<u>(4,513,931)</u>	<u>(785,016)</u>	<u>(5,298,947)</u>

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

18 Share capital

	31 December 2017 £	31 July 2017 £
Ordinary share capital		
Issued and fully paid		
16,871 Ordinary shares of 1p each	169	167
Preference share capital		
Issued and fully paid		
3,396 A1 Irredeemable preference shares of 1p each	34	34
5,828 A2 Irredeemable preference shares of 1p each	59	38
4,030 C1 Irredeemable preference shares of 1p each	40	-
	133	72
Total called up share capital	302	239

Reconciliation of movements during the period:

	Ordinary Number	A1 Irredeemable preference Number	A2 Irredeemable preference Number	C Irredeemable preference Number
At 1 August 2017	16,660	3,396	3,797	-
Issue of fully paid shares	211	-	2,031	4,030
At 31 December 2017	16,871	3,396	5,828	4,030

During the year the company issued 211 (31 July 2017: 559) Ordinary shares, Nil (31 July 2017: Nil) A1 Irredeemable preference shares, 2,031 (31 July 2017: 2,271) A2 Irredeemable preference shares and 4,030 (31 July 2017: Nil) C1 Irredeemable preference shares. All classes of share rank pari passu in all respects except for dividends or other distributions made pursuant to Article 7 (Liquidation event) of the Articles of Association. The funds raised shown in equity are net of transaction costs.

19 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2017 £	31 July 2017 £
Rent payables:		
Within one year	308,803	178,268
Between two and five years	777,099	126,166
In over five years	-	14,260
	1,085,902	318,694

WHAT3WORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

19 Operating lease commitments

During the period £78,869 (31 July 2017: £126,389) was recognised as an expense in the profit and loss account in respect of operating leases.

20 Events after the reporting date

From 1 January 2018 to 31 August 2018, the company received a further £5,253,475 from investors.

21 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	31 December 2017 £	31 July 2017 £
Aggregate compensation	475,798	822,354

22 Cash generated from operations

	31 December 2017 £	31 July 2017 as restated (see note 1.2) £
Loss for the period after tax	(2,797,611)	(5,298,947)
Adjustments for:		
Taxation credited	(111,209)	(468,818)
Investment income	(11,422)	(19,813)
Loss on disposal of tangible fixed assets	-	403
Amortisation and impairment of intangible assets	64,638	171,101
Depreciation and impairment of tangible fixed assets	10,622	11,596
Equity settled share based payment expense	466,099	885,799
Movements in working capital:		
Increase in debtors	(21,489)	(167,708)
Increase in creditors	143,140	330,558
Cash absorbed by operations	(2,257,232)	(4,555,829)