Registered number: 06331310

Facebook UK Limited

Annual report and financial statements for the year ended 31 December 2018

Facebook UK Limited

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Facebook UK Limited

Strategic report
for the year ended 31 December 2018

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

Business review and future developments

The company is engaged in the provision of sales support, marketing services and engineering support to the Facebook group and to act as a reseller of advertising services to designated UK customers. There are no future changes anticipated in the business of the company at this time.

The key financial and other performance indicators during the year ended 31 December 2018 were as follows:

The company has continued to grow during the year, resulting in increased headcount of 52%, from 1,290 in 2017 to 1,965 in 2018.

Gross amounts from advertisers and others amounted to £1.6 billion during the year (2017: £1.3 billion) which resulted in recognised revenue of £797.1 million (2017: £530.2 million). Business operations continued to grow during the year which drove the increase in intercompany services and advertising reseller revenue. Profit before tax has increased to £96.6 million (2017: £62.8 million). The profit for the year after tax amounted to £68.1 million and has been credited to reserves.

The company signed a facility lease in Kings Cross London in July 2018. This will enable the company to continue to expand in the future.

There were no new products sold by the company and no new services introduced during the year that had a material impact on the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties which the company are confronted with are limited by the arrangements it has in place with group companies. Such arrangements could be impacted in the event of an emergence of rival social networks, security and privacy breaches, reductions in user engagement, difficulties attracting talent and the potential withdrawal of the United Kingdom from the European Union ("Brexit"). Brexit could adversely impact the local economy reducing online advertising spend and subject the company to increased regulatory challenges and other adverse effects that the company are unable to effectively anticipate.

The main risks arising from the company's activities are as follows:

- Currency risk
  Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk is monitored on an ongoing basis.

- Credit risk
  Credit risk is the risk that a counter party will not meet its objectives under a financial instrument or customer contract, leading to financial risk. The Board of Directors has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

- Interest rate risk
  Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The company has no liabilities carrying interest rates at present, however the exposure to interest rate risk is monitored on an ongoing basis.

Strategic report (continued)
for the year ended 31 December 2018

Principal risks and uncertainties (continued)

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

By order of the board.

S J S Taylor
Director

Date: 23 September 2019

Facebook UK Limited

Directors' report
for the year ended 31 December 2018

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

Results and dividends

Profit before tax has increased to £96.6 million (2017: £62.8 million).

No dividends will be distributed for the year ended 31 December 2018 (2017: £nil).

Directors

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

S H Crehan (resigned 14 June 2018)
D W Kling
S J S Taylor

The directors and secretary and their families had no other interests in the shares of the company or any other group company at 31 December 2018 that require disclosure.

Research and development

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

The company has incurred £356.2 million (2017: £263.7 million) in research, development and engineering expenses during the year.

Going concern

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

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' report (continued)
for the year ended 31 December 2018

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the audited financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Employees

The company provides regular information to employees through quarterly company meetings where employees can direct questions on any company topic. In addition, there are specific business updates across the organisation, which generally include open questions and answers. Facebook also consults with employees through employee resource and focus groups in response to feedback captured through regular employee surveys.

The company facilitates a share incentive plan operated by Facebook, Inc. with employees of the company receiving remuneration in the form of restricted ordinary shares ("RSUs") as consideration for services rendered.

All new joiners to Facebook are given access to the employee handbook as part of the on-boarding process. The handbook includes the Facebook Equal Opportunities and Harassment Policy which applies to the full life cycle of an employee - including recruitment, training, promotion and all other aspects of employment. The policy also includes the company's commitment to providing reasonable accommodation for disabled employees throughout the whole employment lifecycle, including employees who may become disabled while employed by the company.

Disclosure of information to auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Facebook UK Limited

Directors' report (continued)
for the year ended 31 December 2018

Events since year end

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

Independent auditor

In accordance with section 485 of the Companies Act 2006, the auditor will be deemed to be reappointed and, Ernst & Young, will therefore continue in office.

This report was approved by the board and signed on its behalf.

S J S Taylor
Director

Date: 23 September 2019

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

Opinion

We have audited the financial statements of Facebook UK Limited ('the Company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 25, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and director's report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young

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

Dublin

Date: 25 September 2019

Statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £000	Restated* 2017 £000
Revenue	4	**797,058**	530,175
Cost of sales		**(33,552)**	(23,631)
Gross profit		**763,506**	506,544
Administrative expenses		**(666,843)**	(444,473)
Operating profit	5	**96,663**	62,071
Interest receivable and similar income	7	**147**	715
Interest payable and similar charges	8	**(210)**	(19)
Profit on ordinary activities before tax		**96,600**	62,767
Tax charge on profit on ordinary activities	9	**(28,461)**	(17,192)
Profit for the year		**68,139**	45,575
Total comprehensive income for the year		**68,139**	45,575

All activities of the company are from continuing operations.

The notes on pages 12 to 33 form part of these financial statements.

*See Note 21 for details regarding the restatement as a result of changes in accounting policies.

Statement of financial position as at 31 December 2018

	Note		2018 £000		2017 £000
Non-current assets					
Intangible assets	10		**50**		54
Tangible assets	11		**89,177**		80,905
			89,227		80,959
Current assets					
Debtors	12	**531,443**		453,646	
Cash and cash equivalents	13	**153,194**		33,556	
		684,637		487,202	
Creditors: amounts falling due within one year	14	**(459,752)**		(336,947)	
Net current assets			**224,885**		150,255
Total assets less current liabilities			**314,112**		231,214
Creditors: amounts falling due after more than one year	15		**(36,629)**		(17,646)
Provisions	17		**(13,285)**		(13,080)
Net assets			**264,198**		200,488
Capital and reserves					
Called up share capital presented as equity	18		**1**		1
Retained earnings			**264,197**		200,487
Total equity			**264,198**		200,488

The notes on pages 12 to 33 form part of these financial statements.

The financial statements on pages 9 to 33 were approved and authorised for issue by the board of directors and were signed on its behalf by:

S J S Taylor
Director

Date: 23 September 2019

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital presented as equity	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2017	1	189,864	189,865
Profit for the financial year, representing total comprehensive income	-	45,575	45,575
Deferred tax movements (Note 16)	-	(5,676)	(5,676)
Recharge paid to parent for share based payment plan	-	(153,002)	(153,002)
Reserve credit for share based payment plan	-	115,275	115,275
Corporation tax credit for share based payment plan	-	8,451	8,451
At 31 December 2017 and 1 January 2018	**1**	**200,487**	**200,488**
Profit for the financial year, representing total comprehensive income	-	68,139	68,139
Deferred tax movements (Note 16)	-	(3,000)	(3,000)
Recharge paid to parent for share based payment plan	-	(154,012)	(154,012)
Reserve credit for share based payment plan	-	145,641	145,641
Corporation tax credit for share based payment plan	-	6,942	6,942
At 31 December 2018	**1**	**264,197**	**264,198**

The notes on pages 12 to 33 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1. General information

Facebook UK Limited provides sales support, marketing services and engineering support to the Facebook group and acts as a reseller of advertising services to designated UK customers.

The company is a private company limited by shares and is incorporated and domiciled in England in the UK, registered number 06331310. The address of its registered office is 10 Brock Street, Regent's Place, London, NW1 3FG.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 73(e) of IAS 16 Property, plant and equipment;
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the year);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B to D (additional comparative information);
  - 111 (cash flow statement information);
  - 134 to 136 (capital management disclosures);
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services was determined);
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but not yet effective);
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation);

2. **Summary of significant accounting policies (continued)**

2.1 Basis of preparation (continued)

- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs use to fair value measurement of assets and liabilities); and
- The requirements of the second sentence of paragraph 110 and paragraphs 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

For the purposes of FRS 101 reduced disclosure exemptions, equivalent disclosures are included in the publicly available consolidated financial statements of Facebook, Inc., the ultimate parent of the company and the smallest and largest group in which the company is consolidated into. The consolidated financial statements of Facebook, Inc. are available to the public and can be downloaded free of charge from the company's investor relations website, located at Investor.fb.com. The equivalent disclosures for IFRS 7 are included within the Form 10-K document that contains the publicly available financial statements of Facebook, Inc.

2.2 Going concern

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

2.3 Recent accounting pronouncements

The following new standards and amendments are effective for the first time for periods beginning on or after 1 January 2018.

The adoption of the new accounting standard for financial instruments, IFRS 9
In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) superseded IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018.

In accordance with the transitional provisions in IFRS 9, the company has applied the modified retrospective transition method and has not restated prior year comparative figures. Results for the year ended 31 December 2018 are presented under IFRS 9, whilst results for the year ended 31 December 2017 are reported in accordance with IAS 39. Under the modified retrospective transition method, any cumulative adjustment from the adoption of IFRS 9 is recognised in opening retained earnings as at 1 January 2018. However, following the adoption of IFRS 9, there has been no adjustment made to retained earnings.

The adoption of the new accounting standard for revenue from contracts with customers, IFRS 15
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes the revenue recognition requirements of IAS 18, Revenue and IAS 11, Construction Contracts and requires entities to recognise revenue when control of the promised goods or services are transferred to customers, at an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. IFRS 15 has an effective date of 1 January 2018. The company has adopted IFRS 15 on 1 January 2018 using the retrospective method applied to contracts not completed as of this date.

The impact of the adoption of IFRS 15 is shown in Note 21 to the financial statements.

2. Summary of significant accounting policies (continued)

2.4 Revenue

The company recognises revenue when control of the promised goods or services are transferred to the customer, for an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services.

Revenue is recognised for the major business activities outlined below.

Advertiser reseller revenue

The company acts as a reseller of advertising services to designated UK customers through a reseller agreement with another group company and generates revenues primarily through resale of advertising inventory on Facebook. These revenues consist primarily of advertising revenues generated by displaying ad products on Facebook, Instagram, Messenger, and third-party affiliated websites or mobile applications. The company reports advertising reseller revenue net of associated direct cost of sales.

Advertiser reseller revenue comprise revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to a user. The company recognises revenue from the delivery of action-based ads in the period in which a user takes the action the marketer contracted for.

Services

Revenue comprises of the fair value of the consideration receivable for the provision of contract sales support, marketing services and engineering support to the Facebook Group. The company recognises revenue when control of services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those services.

2.5 Research and development

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

2.6 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Benefits received as an incentive to enter into an operating lease, such as rent-free periods are also spread on a straight-line basis over the lease term as a reduction of the rental expense.

These benefits are recognised as deferred rent liabilities as they arise over the rent-free period and are shown on the statement of financial position. They are classified within current liabilities if they will be recognised with one year or less. If not, they are presented as creditors: amounts falling due after more than one year.

Notes to the financial statements for the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.7 Foreign currencies

The financial statements are presented in pound sterling ("£"), which is the company's functional and presentational currency. All values are in pound sterling rounded to the nearest thousand pound (£"000") except where otherwise stated.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the statement of financial position 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 statement of comprehensive income.

2.8 Interest receivable and similar income

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

2.9 Interest payable and similar charges

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

2.10 Income tax

Income tax on the statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(a) Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

(b) Deferred tax
Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current or deferred tax assets and liabilities are not discounted.

In accordance with the requirements of IAS 12 Income Taxes, the company recognises directly to equity deferred taxes related to the excess of the expected tax deduction for share based payments over the cumulative remuneration expense charged to the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

2.11 Intangible assets

Intangible assets are initially recognised at cost and subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is provided on the following bases:

Computer software	-	33 % on cost

Amortisation is charged to 'administrative expenses' in the statement of comprehensive income.

2.12 Tangible assets and depreciation

Tangible assets are recognised at cost and subsequently stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The cost of the day-to-day servicing of tangible fixed assets is charged to the statement of comprehensive income during the financial period in which they are incurred.

The estimated useful lives range as follows:

Leasehold improvements	- Straight line over period of the lease
Fixtures & fittings	- 20% on cost
Office equipment	- 33% on cost
Computer equipment	- 33% on cost

Assets in the course of construction are not subject to deprecation as the assets are not in use.

Depreciation is charged to 'administrative expenses' in the statement of comprehensive income.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if there is an indication of a significant change since the last end of reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.13 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.14 Financial instruments

(a) Financial assets

Classification

From 1 January 2018, the company classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial instrument and the contractual terms of the cash flows.

In order for a financial asset to be classified and measured at amortised cost its contractual cash flows should be 'solely payments of principal and interest (SPPI)' on the principal amount outstanding and the financial assets should be held under a business model where cash flows result from collecting contractual cash flows. Financial assets which are debt instruments are measured at fair value through other comprehensive income where the contractual cash flows are SPPI and the assets are managed under a business model where cash flows result from both collecting contractual cash flows and selling the financial assets.

For instruments measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The company reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition, measurement and derecognition

Financial assets are recognised on the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit and loss ('FVTPL'), directly attributable transaction costs. A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, except for those subsequently measured at fair value through other comprehensive income ('FVTOCI'), the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

For derecognition of financial assets measured at FVTOCI, any cumulative gain or loss is recognised in other comprehensive income. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2. **Summary of significant accounting policies (continued)**

2.14 Financial instruments (continued)

Debt instruments
Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. All the company's debt instruments are measured at amortised cost as the assets are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

The company's debt instruments consist of the following:

- Amounts owed by parent and fellow subsidiary undertakings
- Trade debtors and other debtors

Impairment
For trade debtors, including intercompany trade debtors, the entity applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade debtors have been grouped based on shared credit risk characteristics. The company uses judgement in making assumptions around the risk of default and expected loss rates, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

For amounts owed by parent and fellow subsidiary undertakings, the company applies the general approach to providing for expected credit losses, as prescribed by IFRS 9. The general expected credit loss model under IFRS 9 requires the calculation of '12 month expected credit losses' (losses based on defaults which are possible within 12 months of the reporting date) for financial assets, unless the asset at the reporting date is not considered to be 'low credit risk' and is deemed to have had a 'significant increase in credit risk' since the initial recognition, in which case lifetime expected credit losses should be recorded.

Management consider amounts owed by parent and fellow subsidiary undertakings to have 'low credit risk' when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the short term.

(b) Financial liabilities

Financial liabilities at amortised cost include borrowings and trade and other creditors. These financial instruments are initially measured at fair value, net of any transaction costs in the case of borrowings, and subsequently measured at amortised cost using the effective interest rate. Borrowings are classified as current liabilities (creditors due within one year), unless the group has an unconditional right to defer settlement of the liability for at least one year after the statement of financial position date.

Financial liabilities are derecognised when the group's obligations specified in the contract expire, are discharged or cancelled. Interest expense is recognised using the effective interest rate method.

2. Summary of significant accounting policies (continued)

2.14 Financial instruments (continued)

Accounting policies applied before 1 January 2018

The company has applied IFRS 9 retrospectively, to apply the modified retrospective approach as allowed under IFRS 9. As a result, the comparative information provided continued to be accounted for in accordance with the company's policies.

(i) Financial assets

Basic financial assets, including amounts owed by parent and fellow subsidiary undertakings, trade debtors, other debtors and accrued income are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method and at the end of each reporting period are assessed for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

(ii) Financial liabilities

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

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.15 Debtors

Amounts owed by group undertakings, trade debtors and other debtors are measured initially at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less any impairment.

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors that do not have a financing component are recognised initially at fair value transaction price and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Recognition and measurement of these financial instruments is dealt with in Note 2.14.

2. Summary of significant accounting policies (continued)

2.16 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, held for the purpose of meeting short-term cash commitments, and bank deposits. Cash at bank and bank deposits earn interest at floating rates based on daily deposit bank rates. Bank deposits are made for varying periods depending on the immediate cash requirements of the company and earn interest at the respective deposit interest rates. Cash balances from the Facebook group cash pooling arrangement are presented in cash and cash equivalents or borrowings.

2.17 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as creditors due after more than one year.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.18 Provisions for liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation, unless the impact of discounting is immaterial. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Asset retirement obligation

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

2.20 Called up share capital

Ordinary shares are classified as equity.

2. Summary of significant accounting policies (continued)

2.21 Share based payments

Facebook, Inc. (the "ultimate holding company") operates a share-based compensation plan. Employees of the company receive remuneration in the form of restricted ordinary shares ('RSUs') of its ultimate holding company as consideration for services rendered.

The fair value of the employee services received in exchange for the grant of the RSUs is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted.

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the ultimate holding company revises its estimates of the number of RSUs that are expected to vest based on the non-market vesting conditions. The company recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income.

When the RSUs are exercised, the ultimate holding company issues new shares.

The grant of RSUs by the ultimate holding company to the employees of the company is treated as equity-settled, with a corresponding increase in equity as a contribution from the ultimate holding company.

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

2.22 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Notes to the financial statements for the year ended 31 December 2018

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Taxation

Determining income tax provisions involves judgements on the tax treatment of certain transactions. Deferred tax is recognised on deductible temporary differences where it is probable that there will be taxable income against which these can be offset. See Note 9.

(ii) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 11 for the carrying amount of the tangibles and Note 2.12 for the useful economic lives for each class of assets.

(iii) Provisions

The company makes an estimate of the present value of the dilapidation provision which relates to estimated costs to be incurred to return the currently occupied leased premises to a condition equivalent to that prior to occupation. The company assesses the valuation at each reporting date. See Note 17.

Notes to the financial statements for the year ended 31 December 2018

4. Revenue from contracts with customers

All revenue recognised relates to revenue from contracts with customers.

	2018 £000	2017 £000
Advertising reseller revenue	**68,126**	52,461
Sales support, marketing services and engineering support revenue	**728,932**	477,714
Total revenue	**797,058**	530,175

Reconciliation between gross amounts from advertisers and others with amounts reported as revenue:

	2018 £000	2017 £000
Gross amounts from advertisers and others	**1,655,855**	1,265,210
Cost of sales - reseller expense	**(858,797)**	(735,035)
Advertising reseller and other revenue	**797,058**	530,175

5. Operating profit

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

	2018 £000	2017 £000
Loss on disposal of fixed assets	**931**	-
Depreciation of tangible fixed assets (Note 11)	**14,349**	6,810
Amortisation of intangible assets (Note 10)	**52**	58
Foreign exchange loss/(gain)	**162**	(594)
Research, development and engineering expenses	**356,214**	263,682
Operating lease rentals	**33,574**	25,365
Auditor's remuneration - audit services	**64**	24
Auditor's remuneration - non-audit services	**-**	-

The directors of the company, during the current and previous year, were also senior executives of, and were remunerated by other Facebook entities and received no remuneration for services to this company.

6. Staff costs

Staff costs were as follows:

	2018 £000	2017 £000
Wages and salaries	230,245	144,989
Social security costs	45,415	27,090
Pension costs (Note 20)	10,412	6,551
Share based payments charge (Note 19)	145,641	115,275
	431,713	293,905

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

	2018 No.	2017 No.
Engineering team	1,108	712
Sales support and marketing team	857	578
	1,965	1,290

7. Interest receivable and similar income

	2018 £000	2017 £000
Interest receivable from group undertakings	-	713
Bank interest receivable	147	2
	147	715

8. Interest payable and similar charges

	2018 £000	2017 £000
Unwinding of discount on provision (Note 17)	205	19
Other interest payable	5	-
	210	19

9. Taxation

	2018 £000	2017 £000
Corporation tax		
Current tax on profit for the year	**30,376**	15,792
Total current tax	**30,376**	15,792
Deferred tax		
Origination and reversal of timing differences	**(2,594)**	448
Effects of changes in tax rates	**679**	952
Total deferred tax	**(1,915)**	1,400
Tax charge on profit on ordinary activities	**28,461**	17,192

Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	**96,600**	62,767
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**18,354**	12,083
Effects of:		
Expenses not deductible for tax purposes	**28,762**	23,302
Additional expenses deductible for tax purposes	**(19,334)**	(19,145)
Effects of changes in tax rates	**679**	952
Total tax charge for the year	**28,461**	17,192

Factors that may affect future tax charges

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

Notes to the financial statements for the year ended 31 December 2018

10. Intangible assets

	Computer software £000
Cost	
At 1 January 2018	**173**
Additions	**54**
Disposals	**(163)**
At 31 December 2018	**64**
Amortisation	
At 1 January 2018	**119**
Charge for the year	**52**
Disposals	**(157)**
At 31 December 2018	**14**
Net book value	
At 31 December 2018	**50**
At 31 December 2017	54

Notes to the financial statements for the year ended 31 December 2018

11. Tangible fixed assets

	Leasehold improvements £000	Fixtures & fittings £000	Office equipment £000	Computer equipment £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2018	78,338	1,568	15,543	2,562	992	99,003
Additions	11,684	152	5,995	305	5,149	23,285
Transfers intra group	-	-	(192)	384	-	192
Disposals	(1,359)	(11)	(3,015)	(275)	-	(4,660)
At 31 December 2018	88,663	1,709	18,331	2,976	6,141	117,820
Depreciation						
At 1 January 2018	10,776	788	5,472	1,062	-	18,098
Charge for the year	7,821	315	5,346	867	-	14,349
Transfers intra group	-	-	(43)	(23)	-	(66)
Disposals	(437)	(11)	(3,015)	(275)	-	(3,738)
At 31 December 2018	18,160	1,092	7,760	1,631	-	28,643
Net book value						
At 31 December 2018	70,503	617	10,571	1,345	6,141	89,177
At 31 December 2017	67,562	780	10,071	1,500	992	80,905

Notes to the financial statements for the year ended 31 December 2018

12. Debtors

	2018 £000	2017 £000
Due after more than one year		
Deferred taxation (Note 16)	**19,969**	21,054
	19,969	21,054
Due within one year		
Trade debtors	**321,742**	269,401
Amounts owed by group undertakings	**183,414**	153,306
Prepayments	**6,318**	9,885
	511,474	432,592
Total debtors	**531,443**	453,646

Trade debtors are stated after provisions for impairment of £5.8 million (2017: £3.7 million).

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

13. Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents	**153,194**	33,556

The company together with other legal entities in the Facebook group is a member of a multi-currency notional cash pooling arrangement (the arrangement) with a third party-bank provider. Actual cash balances are not physically converted and are not commingled between participating legal entities. As part of the notional cash pool agreement, the bank extends overdraft credit to participating entities as needed, provided that the overall notionally pooled balance of all accounts in the pool at the end of each day is at least zero.

As part of this arrangement, cash and cash equivalents amounting to £134.1 million (2017: £nil) which represents cash held under the cash pooling arrangement have been pledged as security against obligations of other Facebook legal entities party to the notional cash pooling arrangement. This security can only be called upon if recovery from the customer holding the obligation and recovery under the guarantee with Facebook, Inc. (see below) is not successful.

The company is a beneficiary of a guarantee given by Facebook, Inc. under the Cash Pool Agreement to guarantee the amounts owed to the third-party bank provider.

14. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	**15,251**	5,313
Amounts owed to group undertakings	**320,801**	234,407
Corporation tax	**7,540**	2,987
Other taxation and social security	**62,599**	47,017
Accruals and deferred rent	**53,561**	47,223
	459,752	336,947

Amounts owed to group undertakings are unsecured, repayable on demand and carry no interest.

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

	2018 £000	2017 £000
Amounts owed to group undertakings	**1,262**	1,262
Deferred rent	**35,367**	16,384
	36,629	17,646

Amounts owed to group undertakings are unsecured and interest free. Whilst there is no fixed repayment date, repayment of this balance will not be sought within twelve months of the statement of financial position date.

16. Deferred taxation

	2018 £000	2017 £000
At beginning of year	**21,054**	28,130
Credited/(charged) to the statement of comprehensive income	**1,915**	(1,400)
Utilised in year	**(3,000)**	(5,676)
At end of year	**19,969**	21,054

Notes to the financial statements for the year ended 31 December 2018

16. Deferred taxation (continued)

The deferred taxation balance is made up as follows:

	2018 £000	2017 £000
Deductible temporary differences	**19,969**	21,054

The deferred tax asset mainly relates to unvested employee RSUs which are subject to a UK corporation tax deduction on vesting and deductible temporary differences on tangible fixed assets.

The deferred tax asset of £20.0 million (2017: £21.1 million) has been recognised on the basis it is probable there will be sufficient future taxable profits against which the deductible temporary differences can be utilised.

17. Provisions

	2018 £000	2017 £000
Dilapidations		
At beginning of year	**13,080**	6,105
Additions	**-**	6,956
Unwinding of discount (Note 8)	**205**	19
At 31 December	**13,285**	13,080

The dilapidations provision relates to the estimated costs to be incurred to return the currently occupied leased premises to a condition equivalent to that prior to occupation. Any reconstruction work would occur at the end of the leases in 2023, 2026 and 2032. Amounts charged to the statement of comprehensive income in the year are included within interest payable and similar charges.

18. Share capital

	2018 £000	2017 £000
Authorised, allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	**1**	1

All shares carry equal voting rights.

19. Share based payments

At 31 December 2018 Facebook, Inc. had one active stock based employee compensation plan (the 2012 Equity Incentive Plan ("the Plan")) under which new awards may be granted. Awards may include incentive share options, non statutory share options, share purchase rights or restricted ordinary shares. The company has granted only restricted ordinary shares ("RSUs") to employees of Facebook UK Limited. RSUs may be settled in cash or equity, however the company intends to equity settle all RSUs. The vesting condition of the RSUs is that the employees must remain in employment until the initial vesting event.

The Plan permits the grant of RSUs over ordinary shares (class B common stock) in Facebook, Inc. The per-share exercise price of RSUs granted is generally nil.

The fair value of each RSU is estimated on the date of grant as the share price at the date of grant.

RSUs are granted to employees under the Plan upon hire, or based on performance criteria established by management. RSUs are independent of ordinary share options and are subject to forfeiture if employment terminates prior to the release of the restrictions.

During the vesting period, ownership of the shares cannot be transferred. Once shares are issued pursuant to the terms of an RSU agreement, these shares have the same dividend and voting rights as other ordinary shares.

A reconciliation of movements in the number of RSUs outstanding are as follows:

	2018 RSUs Number	2017 RSUs Number
Outstanding at 1 January	**2,349,721**	2,927,252
Granted	**1,715,837**	1,486,782
Movements*	**(118,037)**	(273,022)
Settled	**(1,175,785)**	(1,371,147)
Forfeited	**(191,337)**	(420,144)
Outstanding at 31 December	**2,580,399**	2,349,721
Vested, but not settled at 31 December 2018	**-**	-

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

The fair value of RSUs granted in the year was £123.08 (US$167.14) (2017: £116.11 (US$146.77)).

The weighted average share price during the year for RSUs settled was £128.54 (US$171.67) (2017: £121.33 (US$156.58)).

The total charge for the year relating to employee share based payment plans was £145.6 million (US$195.4 million) (2017: £115.3 million (US$150.6 million)).

20. Pension commitments

The company operates a defined contributions pension scheme. The cost of contributions to the defined contribution scheme amounts to £10.4 million (2017: £6.6 million). There was an amount outstanding at the year end totalling £0.9 million (2017: £0.4 million).

21. First time adoption of IFRS 15, Revenue from contracts with customers

The changes to the company's accounting policies arising from the adoption of IFRS 15 set out in Note 2.3 has resulted in no recognition or measurement differences. Consequently, there is no adjustment to opening reserves to account for the new standard.

In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. The adoption of IFRS 15 has resulted in a change to the presentation of revenue relating to the resale of advertising and such reseller revenues are presented net of associated costs of sales in the statement of comprehensive income for the year ended 31 December 2018 and its restated comparatives for 2017 financial year. A reconciliation between gross reseller revenue from advertisers with the net reseller revenue reported for the year ended 31 December 2018 and its comparatives have been provided in Note 4.

The impact on the 2017 comparatives is outlined in the table below:

	As reported under IFRS 15 £'000	Adjustment £'000	If reported under IAS 18 £'000
Financial statement line item			
Revenue	**530,175**	735,035	1,265,210
Cost of sales	**(23,631)**	(735,035)	(758,666)

22. Commitments under operating leases

At 31 December 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Not later than 1 year	**40,878**	7,552
Later than 1 year and not later than 5 years	**164,521**	101,012
Later than 5 years	**693,378**	224,737
	898,777	333,301

Notes to the financial statements for the year ended 31 December 2018

23. Events since the end of the financial year

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

24. Immediate parent undertaking and ultimate controlling party

The company's immediate parent undertaking is Facebook Global Holdings II, LLC, a company registered in Delaware, USA.

The company's ultimate parent undertaking is Facebook, Inc., a company registered in Delaware, USA. Facebook, Inc. prepares consolidated financial statements which are publicly available at investor.fb.com.

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

25. Approval of the financial statements

The financial statements were approved and authorised for issue by the directors on 23 September 2019.