

Registration number: 09763672

Snap Group Limited (previously known as Snapchat Limited)

Annual report and financial statements

for the period from 4 September 2015 to 31 December 2016

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Snap Group Limited (previously known as Snapchat Limited)

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Snap Group Limited (previously known as Snapchat Limited)

Company information

Directors	D M A Lewis A L Reid
Registered office	7-11 Lexington Street London W1F 9AF
Independent auditor	Ernst & Young LLP 1 More London Place, London SE1 2AF

Snap Group Limited (previously known as Snapchat Limited)

Strategic report

For the period from 4 September 2015 to 31 December 2016

The directors present their strategic report for the period from 4 September 2015 to 31 December 2016.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Review of the business

Snap Group Limited (the "Company") is a wholly owned indirect subsidiary of Snap Inc., a Delaware corporation. Snap Inc. is engaged in the business of designing, developing, maintaining, and commercialising a technology platform that provides messaging, media, and other services to users as well as other related products and services (collectively, the "Products and Services"). The operating expenses incurred in the period are mainly to house employees in sales related cost centres.

The Company's operating expenses incurred in the period also included expenses relating to the sale of Spectacles, Snap's first hardware product, to other Snap Inc. subsidiaries. In regards to the sale of Spectacles, the Company contracts directly with third party contract manufacturers to manufacture Spectacles and sell to a related U.S. entity.

On 31 December 2016 the Company became the authorised licensee of certain technology and intellectual property rights relating to the design, development, sale and supply of Products and Services, in all countries other than the US.

The Company did not generate third party revenue in the period. The Company's income comes from intercompany agreements with other subsidiaries of Snap Inc. The Company earns a percentage mark up on both the operating expenses relating to the sales function and on quality control, freight, and tooling of Spectacles.

Major operating costs are personnel expenses, rent expenses, travel and entertainment expenses, and legal expenses.

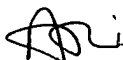
Principal risks and uncertainties

The directors of the Company manage the Company's risks at a group level, rather than at individual business unit level. This is due to the fact that the Company operated as an extension of the parent in relation to the sales function. For this reason, the Company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the business.

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 26 to the financial statements.

Approved by the Board on 5/12/17 and signed on its behalf by:



A L Reid
Director

Snap Group Limited (previously known as Snapchat Limited)

Directors' report

For the period from 4 September 2015 to 31 December 2016

The directors present their annual report and financial statements of the Company for the period from 4 September 2015 to 31 December 2016.

Incorporation

The Company was incorporated on 4 September 2015 under the name "Snapchat Limited". On 5 January 2017, the Company changed its name to "Snap Group Limited."

Directors

The directors of the Company during the period and up to the date of the signing of the financial statements, unless otherwise stated, were as follows:

D M A Lewis (appointed 16 November 2016)

C T Handman (appointed 4 September 2015 and resigned 1 March 2017)

K A Seggie (appointed 20 April 2016 and resigned 20 March 2017)

The following director was appointed after the period end:

A L Reid (appointed 22 March 2017)

Principal activity

In 2016, the Company provided sales and marketing services to Snap Inc. and procured and sold Spectacles to related entities.

Results and dividends

The results for the financial period ended 31 December 2016 are set out on page 8. The profit for the financial period amounted to \$1,268,717 per the profit and loss account.

The directors do not recommend payment of a dividend for the period.

Future developments

Effective as of the end of the day 31 December 2016, Snap Group Limited began licensing the rights to Snap group intellectual property with respect to the worldwide market outside the United States. As such, beginning 1 January 2017, Snap Group Limited no longer operates on a cost-plus basis with its ultimate parent, Snap Inc.

Financial risk management objectives and policies

The Company's activities expose it to financial risks, such as credit risk. The Company's principal financial assets are bank balances, trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. There is no such evidence of the need for an impairment of trade receivables in the current or previous period.

The risks in respect of liquidity, interest rate, cash flow, foreign exchange and price are managed on a group basis by the indirect parent of the Company.

Going concern

The directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Snap Group Limited (previously known as Snapchat Limited)

Directors' report (continued)

For the period from 4 September 2015 to 31 December 2016

Directors' indemnities

The Company maintains liability insurance for its directors and officers. The Company has also provided an indemnity for its directors, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

Disclosure of information to auditors

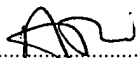
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board on 5/12/17 and signed on its behalf by:



A L Reid
Director

Snap Group Limited (previously known as Snapchat Limited)

Directors' responsibilities statement

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and in accordance with applicable accounting standards and law. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the members of Snap Group Limited (previously known as Snapchat Limited)

We have audited the financial statements of the Company for the period from 4 September 2015 to 31 December 2016 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

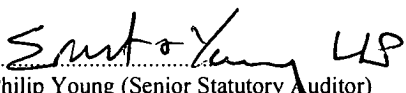
In our opinion the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Snap Group Limited (previously known as Snapchat Limited) (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or 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.

 LP

Philip Young (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor, London

Date: 5 December 2017

Snap Group Limited (previously known as Snapchat Limited)

Profit and loss account

For the period from 4 September 2015 to 31 December 2016

	Note	4 September 2015 to 31 December 2016 \$
Revenue	4	26,333,754
Cost of sales		<u>(13,313,373)</u>
Gross profit		13,020,381
Administrative expenses		(11,527,326)
Foreign exchange differences	5	<u>(149,904)</u>
Operating profit	6	1,343,151
Finance income	7	302,960
Finance costs	8	<u>(16,594)</u>
Profit before taxation		1,629,517
Tax on profit	12	<u>(360,800)</u>
Profit for the financial period		<u><u>1,268,717</u></u>

The notes on pages 12 to 30 form an integral part of the financial statements.

The results for the financial period shown above are derived entirely from continued activities.

Snap Group Limited (previously known as Snapchat Limited)

Statement of comprehensive income

For the period from 4 September 2015 to 31 December 2016

	4 September 2015 to 31 December 2016 \$
Profit for the period	1,268,717
Items that may be reclassified subsequently to profit or loss:	
Changes in fair value of available-for-sale financial assets	<u>(35,303)</u>
Total comprehensive income for the period	<u><u>1,233,414</u></u>

Snap Group Limited (previously known as Snapchat Limited)

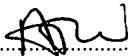
Balance sheet

As at 31 December 2016

	Note	31 December 2016 \$
Fixed assets		
Intangible assets	14	19,942,286
Tangible fixed assets	15	1,756,124
Investments in subsidiaries	16	<u>6,520,100</u>
		<u>28,218,510</u>
Current assets		
Inventory	17	882,959
Trade and other receivables	18	36,231,572
Debtors: amounts falling due after more than one year	18	227,093,895
Cash and cash equivalents	19	193,242,000
Marketable securities	20	<u>393,195,383</u>
		<u>850,645,809</u>
Creditors: amounts falling due within one year		
Trade and other payables	21	<u>(20,208,193)</u>
Net current assets		<u>830,437,616</u>
Total assets less current liabilities		858,656,126
Creditors: amounts falling due after more than one year	21	(50,876,383)
Provisions for liabilities	13	<u>(26,342)</u>
Net assets		<u>807,753,401</u>
Equity		
Called-up share capital	22	1,397
Share premium account	22	806,518,590
Available-for-sale reserve	22	(35,303)
Retained earnings	22	<u>1,268,717</u>
Total shareholder's funds		<u>807,753,401</u>

The financial statements of Snap Group Limited (previously known as Snapchat Limited) (registration number: 09763672) were approved by the directors and authorised for issue on 5.12.17

They were signed on its behalf by:



 A L Reid
 Director

Snap Group Limited (previously known as Snapchat Limited)

Statement of changes in equity

For the period from 4 September 2015 to 31 December 2016

	Called-up share capital	Share premium account	Available-for- sale reserve	Retained earnings	Total shareholder's funds
	\$	\$	\$	\$	\$
At incorporation on 4 September 2015	151	-	-	-	151
Profit for the financial period	-	-	-	1,268,717	1,268,717
Other comprehensive loss	-	-	(35,303)	-	(35,303)
Total comprehensive loss for the financial period	-	-	(35,303)	1,268,717	1,233,414
New share capital subscribed	1,246	806,518,590	-	-	806,519,836
At 31 December 2016	1,397	806,518,590	(35,303)	1,268,717	807,753,401

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements

For the period from 4 September 2015 to 31 December 2016

1 General information

The Company is a private company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom.

The address of its registered office is:

7-11 Lexington Street

London

W1F 9AF

The nature of the Company's operations and its principal activities are set out in the Strategic report and Directors' report on pages 2 to 4.

These financial statements are presented in USD because the preponderance of the economic transactions of the entity is in USD, including the reimbursement of local operating expenses from the ultimate indirect parent as well as all transactions related to Spectacles, Snap Inc.'s first hardware product.

2 Accounting policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006. The new accounting directive of SI 1025/980 has further been early adopted as permitted for accounting periods beginning on or after 1 January 2015.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

Summary of disclosure exemptions

The following exemptions from the requirements of the International Financial Reporting Standards ('IFRS') have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
 - (i) paragraph 79(a)(iv) of International Accounting Standards ('IAS') 1; and
 - (ii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- 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),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- 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 is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Where relevant, equivalent disclosures have been given in the group financial statements of Snap Inc. The group financial statements of Snap Inc. are available to the public and can be obtained as set out in note 28.

The principal accounting policies adopted are set out below.

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

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods and services

Revenue from sale of goods and services is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Foreign currencies

These financial statements are presented in USD because the preponderance of the economic transactions of the entity is in USD, including the reimbursement of local operating expenses from the ultimate indirect parent as well as all transactions related to Spectacles.

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Tax

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 period. 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 end of each reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Tax (continued)

Current and deferred tax for the period

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets (other than assets under construction) less residual values on a straight line basis over their expected useful economic lives. The principal annual periods used for this purpose are:

Asset class	Depreciation rate
Leasehold improvements	Term of lease
Fixtures, fittings & equipment	5 years
Computer equipment	3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Investments

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In respect of work in progress and finished goods, cost includes overheads, transportation, and duty costs where appropriate. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective inventories.

Trade and other receivables

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

Trade and other receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term except where another systematic basis is more representative of time pattern in which economic benefits from the lease asset are consumed.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax from the proceeds.

Financial instruments

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

Financial assets

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ('FVTPL'), 'held-to-maturity' investments, 'available-for-sale' ('AFS') financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

Available-for-sale financial assets

Marketable securities held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner of quoted prices (unadjusted) in active markets. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the available-for-sale reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade debtors, loans, and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Equity instruments

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

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

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

2 Accounting policies (continued)

Financial instruments (continued)

Financial liabilities

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

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

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

Share-based payments

Where the Company's parent company has granted rights to its equity instruments to employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. Restricted Stock Units ("RSUs") granted to employees before 31 December 2016 contain both service-based and performance conditions to vest in the underlying shares. The performance conditions will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of our assets or a merger involving the sale of a majority of the outstanding shares of our voting shares, or (2) the effective date of the registration statement in connection with a qualifying initial public offering. No expense is recorded related to these awards until the performance conditions becomes probable of occurring. Once a performance event becomes probable, a liability will be recognised since the Company is to be recharged by its parent.

Share-based payments (continued)

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying value of assets and liabilities that are not readily apparent from other sources.

The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Income taxes and deferred tax

Significant estimates are made to determine both current and deferred tax liabilities/assets. In particular, the Company must determine the possibility that deferred tax assets will be utilised and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changes in tax legislation, or the outcome of the final review by tax authorities of tax returns.

Value of Intellectual property

The Company determines the estimated useful lives, residual values and related charges for its intellectual property with reference to the estimated periods that the Company intends to derive future economic benefits from the use of these assets. Management will revise the amortisation charge where useful lives or residual values are materially different from those previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in useful economic lives and residual values and therefore amortisation expenses in the future periods. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

4 Revenue

The total revenue of the Company for the period has been derived from the principal activity wholly undertaken in the United Kingdom, delivered to other group companies based in the United States.

	4 September 2015 to 31 December 2016 \$
Intercompany products revenue	13,486,406
Intercompany sales and marketing revenue	12,847,348
	<u>26,333,754</u>

5 Foreign exchange differences

The analysis of the Company's foreign exchange differences for the period is as follows:

	4 September 2015 to 31 December 2016 \$
Foreign exchange losses	<u>149,904</u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	4 September 2015 to 31 December 2016 \$
Depreciation of tangible fixed assets	197,103
Operating lease expense - property	<u>1,259,703</u>

7 Finance income

	4 September 2015 to 31 December 2016 \$
Other finance income	<u>302,960</u>

8 Finance costs

	4 September 2015 to 31 December 2016 \$
Other finance costs	<u>16,594</u>

9 Staff costs

The average monthly number of employees (including executive directors) in the period was:

	4 September 2015 to 31 December 2016 No.
Administration	2
Sales and operations	24
Engineering	<u>3</u>
	<u>29</u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

9 Staff costs (continued)

Their aggregate remuneration in the period comprised:

	4 September 2015 to 31 December 2016 \$
Wages and salaries	5,819,337
Social security costs and benefits	707,674
Pension costs	39,408
Other	217,073
	<u>6,783,492</u>

10 Directors' remuneration

The directors' services to Snap Group Limited have been considered insignificant and therefore the directors did not receive any remuneration for their services. The directors of the Company did not exercise any share options and do not participate in a defined benefit or money purchase pension scheme.

11 Auditor's remuneration

	4 September 2015 to 31 December 2016 \$
Services provided by the Company's auditor:	
- Fees payable for the audit of the Company's annual financial statements	<u>128,336</u>
	<u>128,336</u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

12 Tax on profit

Tax charged for the period in the profit and loss account:

	4 September 2015 to 31 December 2016 \$
Current tax	
UK corporation tax	334,458
Deferred tax	
Current year	30,990
Effect of changes in tax rates	<u>(4,648)</u>
Total deferred tax (see note 13)	<u>26,342</u>
Tax charge in the profit and loss account	<u><u>360,800</u></u>

The tax on profit before taxation for the period is higher than the standard rate of corporation tax in the UK of 20%.

The charge for the period can be reconciled to the profit per the profit and loss account as follows:

	4 September 2015 to 31 December 2016 \$
Profit before taxation	<u>1,629,517</u>
Corporation tax at standard rate	325,904
Effects of:	
Expenses not deductible for tax	39,544
Effects of tax rate changes	<u>(4,648)</u>
Tax charge for the period	<u><u>360,800</u></u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

13 Deferred tax

The following are the major deferred tax (assets)/liabilities recognised by the Company and movements thereon during the current period.

	Fixed asset timing differences	Other temporary differences	Total
	\$	\$	\$
At incorporation 4 September 2015	-	-	-
Charged to profit and loss account	<u>34,802</u>	<u>(8,460)</u>	<u>26,342</u>
At 31 December 2016	<u>34,802</u>	<u>(8,460)</u>	<u>26,342</u>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016
	\$
Deferred tax liabilities	26,342
Deferred tax assets	<u>-</u>
	<u>26,342</u>

14 Intangible assets

	Intellectual property
	\$
Cost or valuation	
At incorporation 4 September 2015	-
Additions	74,971,000
Disposals	<u>(55,028,714)</u>
At 31 December 2016	<u>19,942,286</u>
Carrying amount	
At 31 December 2016	<u>19,942,286</u>

During December 2016, the Company purchased the entire right, title and interest in Intellectual Property rights with a value of \$74,971,000.

On 31 December 2016, the Company disposed of 73.4% of the above intellectual property, amounting to \$55,028,714.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

15 Tangible fixed assets

	Leasehold improvements \$	Furniture, fittings and equipment \$	Computer equipment \$	Total \$
Cost or valuation				
At incorporation 4 September 2015	-	-	-	-
Additions	1,873,111	29,627	50,489	1,953,227
At 31 December 2016	1,873,111	29,627	50,489	1,953,227
Depreciation				
At incorporation 4 September 2015	-	-	-	-
Charge for the period	193,135	988	2,980	197,103
At 31 December 2016	193,135	988	2,980	197,103
Carrying amount				
At 31 December 2016	1,679,976	28,639	47,509	1,756,124

16 Investments in subsidiaries

	31 December 2016 \$
Additions	6,520,100
At 31 December 2016	6,520,100

Group

Details of undertakings

Undertakings	Country of incorporation	Principle activity	Holding	Proportion of voting rights and shares held
Subsidiary undertakings				
Snap Group SAS (102 avenue des Champs-Élysées 75008 Paris)	France	Promotional services	Ordinary	100%
Obvious Engineering Limited (7-11 Lexington Street, Soho, London, England, W1F 9AF)	UK	Computer vision research, app development and technology licensing	Ordinary	100%

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

16 Investments in subsidiaries (continued)

On 6 June 2016, the Company acquired 100% of the issued share capital for cash consideration of EUR 100, on incorporation of Snap Group SAS, a company incorporated in France.

On 6 December 2016, the Company issued 1 ordinary share with a nominal value of £1 to its ultimate parent company, Snap Inc., as consideration for the receipt of 100% of the outstanding ordinary share capital of Obvious Engineering Limited.

17 Inventory

	31 December 2016
	\$
Finished goods and goods for resale in transit	<u>882,959</u>

18 Trade and other receivables

	31 December 2016
	\$
Amounts falling due within one year:	
Amounts owed by group undertakings	7,648,639
Other receivables	1,474,308
Prepayments and accrued income	450,945
VAT receivable	1,557,680
Prepaid royalty	<u>25,100,000</u>
	<u>36,231,572</u>
	31 December 2016
	\$
Amounts falling due after more than one year:	
Other debtors	1,193,950
Prepaid royalty	177,648,659
Deferred royalty	<u>48,251,286</u>
	<u>227,093,895</u>
Total trade and other receivables	<u><u>263,325,467</u></u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

19 Cash and cash equivalents

	31 December 2016
	\$
Cash at bank and in hand	9,420,136
Marketable securities	<u>183,821,864</u>
	<u>193,242,000</u>

At 31 December 2016, within the above balance there are marketable securities with a maturity of less than 90 days.

20 Marketable assets

	31 December 2016
	\$
Current financial assets	
Marketable securities	<u>393,195,383</u>

At 31 December 2016, within the above balance there are marketable securities with a maturity of between 90 and 597 days.

The fair value of the marketable securities was derived from quoted prices (unadjusted) in active markets and were therefore classified as level 1 in the fair value hierarchy.

21 Trade and other payables

	31 December 2016
	\$
Amounts falling due within one year	
Trade payables	6,577,253
Amounts owed to group undertakings	9,657,136
Accruals and deferred income	3,633,472
Other creditors	88,374
Corporation tax	<u>251,958</u>
	<u>20,208,193</u>

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

21 Trade and other payables (continued)

	31 December 2016 \$
Amounts falling due after more than one year	
Deferred rent	214,032
Long term acquisition holdback liability	2,411,065
Amounts owed to group undertakings	<u>48,251,286</u>
	<u><u>50,876,383</u></u>

22 Called-up share capital and reserves

Allotted, called-up and fully paid shares

	31 December 2016 No.	31 December 2016 \$
Ordinary shares of £1 each	<u>1,100</u>	<u>1,397</u>

The Company issued 100 ordinary shares with a nominal value of £1 to its ultimate parent company, Snap Inc., on incorporation on 4 September 2015.

On 6 December 2016, the Company issued 1,000 ordinary shares with a nominal value of £1 each to its ultimate parent company, Snap Inc.

The Company's other reserves are as follows:

Share premium account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Retained earnings

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

23 Obligations under leases and hire purchase contracts

Operating leases

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

	2016
	\$
Within one year	691,731
In two to five years	4,775,580
In over five years	4,682,516
	<u>10,149,827</u>

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years with an option to extend for a further five years at the higher of the basic rent payable immediately before the review date and the prevailing open market rate.

Operating lease expenditure recognised in the period to 31 December 2016 was \$1,259,703.

24 Contingent liabilities

At 31 December 2016, there are no pending matters or settlements outstanding.

25 Off-balance sheet arrangements

The Company enters into operating lease arrangements for the hire of buildings and equipment as these arrangements are a cost effective way of obtaining the short term benefit of these assets. The annual commitments under these arrangements are disclosed in Note 23. There are no other material off-balance sheet arrangements.

26 Post balance sheet events

In January 2017, the Company started to sell and monetise the Products and Services in non U.S. markets.

In June 2017, Spectacles began to be distributed internationally with the Company being the seller of record for the majority of non U.S. transactions.

Snap Group Limited (previously known as Snapchat Limited)

Notes to the financial statements (continued)

For the period from 4 September 2015 to 31 December 2016

27 Share-based payments

Equity-settled share option scheme

The Company participates in a Restricted Stock Unit (RSU) scheme for all employees. The vesting period is four years. RSUs granted to employees before 31 December 2016 contain both service-based and performance conditions to vest in the underlying common stock. The performance conditions will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of our assets or a merger involving the sale of a majority of the outstanding shares of our voting capital stock, or (2) the effective date of the registration statement in connection with a qualifying initial public offering. No expense is recorded related to these awards until the performance conditions becomes probable of occurring. Once a performance event becomes probable, a liability will be recognised since the Company is to be recharged by its parent. RSUs are forfeited if the employee leaves the Company before the RSUs vest.

During the period to 31 December 2016, RSUs were granted monthly from the 15th February to the 21st December 2016 to employees of Snap Group Limited. The total aggregate fair values of the RSUs granted on those dates was \$36,618,309.

As at 31 December 2016 the directors did not consider that an initial public offering of Snap Inc. shares was probable, resulting in no charge being recognised in the period.

28 Controlling party

The immediate parent of the Company is Snap International II Limited, a company incorporated in England and Wales.

The ultimate controlling party of the Company is Snap Inc., a company incorporated in Delaware, U.S.

Snap Inc. is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2016. The financial statements of Snap Inc. are available at <https://investor.snap.com/>.