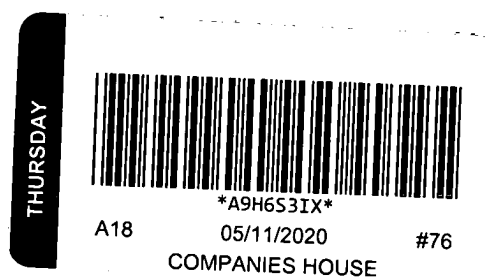


Registration number: 09763672

Snap Group Limited

Annual report and audited financial statements
for the year ended 31 December 2019



Snap Group Limited

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Snap Group Limited

Company information

Director	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

Strategic report (continued) For the year ended 31 December 2019

The director presents this Strategic report for the year ended 31 December 2019.

The director, in preparing this Strategic report, has 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 (collectively, with the Company, 'Snap'). 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 Company generates revenue primarily through advertising.

Advertising Products

Snap's ad products are built on the same foundation that makes its consumer products successful. This means that Snap can take the things it learns while creating its consumer products and apply them to building innovative and engaging advertising products familiar to its community. Sponsored Lenses take advantage of the reach and scale of its augmented reality platform to create visually engaging 3D experiences. Snap Ads let advertisers tell their stories the same way its users do, using full screen videos with sound. Snap Ads also allow advertisers to integrate additional experiences and actions directly within these ad units, including watching a long-form video, visiting a website, or installing an app.

Campaign Management and Delivery

Snap is always working to improve the way ads are bought and delivered. Snap is investing heavily in its self-serve platform, which provides for automated, sophisticated, and scalable ad buying and campaign management. This helps advertisers increase their return on investment by providing more refined targeting, the ability to test and learn with different creatives or campaign attributes in real time, and the dynamics of its self-serve pricing. Additionally, Snap's delivery framework continues to optimize relevance of ads across the entire platform by determining the best ad to show to any given user based on their real-time and historical attributes and activity. This decreases the number of wasted impressions while improving the effectiveness of the ads that are shown to Snap's community.

Measuring Advertising Effectiveness

Snap offers a broad range of third-party and first-party solutions to provide analytics on campaign attributes like reach, frequency, demographics, and viewability; changes in perceptions like brand favourability or purchase intent; and lifts in actual behaviour like purchases, foot traffic, app installs, and online purchases. Snap is constantly expanding its ability to provide more transparency to advertisers and partners.

Financial performance

In the year, the Company's revenue increased from \$403,722,233 to \$653,941,827 primarily due to international growth in advertising demand and expansion into new territories.

The loss for the year, after taxation is \$443,778,606 (2018: \$312,823,104). The cost base was primarily driven by hosting costs of \$396,700,774 (2018: \$310,315,363), intercompany operating expenses of \$490,068,331 (2018: \$273,723,957), and direct cost of sales relating to the advertising business of \$74,797,135 (2018: \$56,983,583). Increase in intercompany operating expenses was, in part, driven by a revision to the cost-sharing arrangement relating to stock-based compensation.

The details of non-financial key performance indicators are explained in more detail in Snap Inc.'s Annual Report on Form 10-K for the year ended 31 December 2019.

Section 172(1) Companies Act 2006

The board works to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, to all its stakeholders and to the matters set forth in Section 172 of the Companies Act 2006. This section of the Strategic report describes how the board has had regard to the matters set forth in section 172(1) of the Companies Act 2006.

Snap Group Limited

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) Companies Act 2006 (continued)

The Company is dependent on the support of its stakeholders for the success of its business. The director is kept informed about the views of stakeholders through interactions and communications with stakeholders and this information is used to assess the likely consequences of their decisions and actions on each stakeholder group.

Details of the Company's stakeholders and how the Company engages with them are set out below.

Shareholders

The Company relies on the support of its ultimate parent company, Snap Inc. The Company maintains regular dialogue with the management of Snap Inc. over a wide range of topics including, but not limited to, governance, strategy, and financial performance. The views of Snap Inc. are considered in the board's decision-making process and representatives of Snap Inc. are present at the Company's board meetings.

People

The Company's employees are integral to the success of the business. The Company engages with its team in several ways, including surveys, meetings, newsletters, and employee events. The Company focuses on the safety and well-being of its people as well as their compensation and development opportunities. Employee compensation levels are evaluated and adjusted annually. Considering the health and well-being of the Company's people, the Company has also implemented a work from home policy during the ongoing global COVID-19 pandemic. The Company is also committed to ensuring its workforce is diverse and has partners in this area who help with building awareness in underrepresented communities.

User community

Snapchat's community is critical to the Company's ability to generate revenues and ultimately the success of its business. Key areas of focus include product innovation as well as user privacy. Snap Inc. spends considerable time reviewing user feedback which is used to inform the decision-making process around product innovation and user privacy. The Company's board does not directly get involved in reviewing user feedback or implementing new product features and updates as this is led by Snap Inc.

Advertisers

Substantially all of the Company's revenue comes from advertising. The Company regularly engages with advertisers and their representatives through direct interactions and conferences. Our interactions focus on educating the advertising community about the Snapchat community and how they can successfully meet their marketing and media objectives by using the platform. Feedback from advertisers is used to inform decision-making around the ad delivery platform. The Company invests heavily in its self-serve tools, which provide for automated, sophisticated, and scalable ad buying and campaign management. This helps advertisers increase their return on investment by providing more optimal targeting, the ability to test and learn with different creatives or campaign attributes in real time, and the dynamics of the Company's self-serve pricing. Additionally, the Company's delivery framework continues to optimize relevance of ads across the entire platform by determining the best ad to show to any given user based on their real-time and historical attributes and activity. This decreases the number of wasted impressions while improving the effectiveness of the ads that are shown to the community. Snapchat works with a number of 3rd parties to demonstrate advertising effectiveness.

Suppliers

The Company maintains strong relationships with its suppliers and engages with them through direct interactions. Key areas of focus for the Company's suppliers include building strong relationships that ensure a high level of service, fair and transparent terms, and prompt payment. The board is kept informed on supplier feedback and issues on a regular basis. The board considers suppliers in the decisions it takes as it recognises that its suppliers are important to the long-term success of the Company's business. For key infrastructure vendors, the group has dedicated personnel who constantly engage and solicit feedback.

Snap Group Limited

Strategic report (continued) For the year ended 31 December 2019

Section 172(1) Companies Act 2006 (continued)

Local communities

The board considers the impact of its decisions on the local communities in which the Company operates. Key areas of focus include how the Company reduces its environmental impact, creating local employment and career development opportunities, and supporting local charities and community groups. The Company has a policy that offers four hours of paid time off each month for individual team members who volunteer at not-for-profit organisations that align with the Company's philanthropic mission. In addition, to connect philanthropy across teams, the Company operates Snap CAMP (Community, Arts, & Mentorship Projects), an umbrella initiative that unites the Company around Snap's philanthropic mission of spreading kindness and inspiring creativity in local communities. The Company also maintains positive relations with a variety of not-for-profit organisations in the UK and elsewhere, and benefits from their expertise on topics of importance to the business and wider society alike. The topic areas include online safety, child safety, and privacy.

Governments, regulators and other public institutions

The Company engages with various governments, regulators, and other public institutions through direct communication, both verbal and written. Key areas of focus are responding to public consultations on new areas of public policy, legislation, and regulation; responding to official requests for information and providing inputs to official inquiries, regulatory investigations, and market studies; and understanding compliance with applicable laws and regulations. The board remains updated on developments in legal and regulatory frameworks and ensures compliance with laws and regulations in the decisions it takes. The Company ensures sufficient headcount to work with governments, regulators, and other public authorities internationally.

Corporate Social Responsibility for the overall Group is also discussed in the CitizenSnap report available from <https://citizen.snap.com/>

Principal risks and uncertainties

The principal risks of the Company are managed at a group level, rather than at an individual business unit level. The principal risks and uncertainties of the group, which includes the Company are discussed on pages 8 to 36 of Snap Inc.'s 2019 Annual Report on Form 10-K which is not part of these financial statements and can be obtained as set out in note 31.

Events after the balance sheet date

Details of significant events since the balance sheet date, including the COVID-19 pandemic, are contained in note 29 to the financial statements.

Approved by the board of directors on 30th September 2020 and signed on its behalf by:



.....
A L Reid
Director

Snap Group Limited

Director's report For the year ended 31 December 2019

The director presents this annual report and financial statements of the Company for the year ended 31 December 2019.

Directors

The directors of the Company during the year and up to the date of the signing of the financial statements, were as follows:

D M A Lewis (resigned 8 April 2020)

A L Reid

Principal activity

The Company is engaged in the business of selling advertisements and related products and services.

Results and dividends

The results for the financial year ended 31 December 2019 are set out on page 10. The loss for the financial year amounted to \$443,778,606 (2018: \$312,823,104) per the profit and loss account.

The director does not recommend payment of a dividend for the year (2018: \$nil).

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 receivables, prepaid royalties, deferred royalties, 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 any material 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 level by Snap Inc.

Research and development

Research and development expenses consisted primarily of personnel-related costs, including salaries, benefits, and stock-based compensation for engineers and other employees engaged in the research and development of Products and Services, and software license expenses.

Branches outside the UK

The Company has branch offices in Gibraltar and Singapore. The Gibraltar branch office was established in 2019 and the Singapore branch office was established in 2020.

Snap Group Limited

Director's report (continued) For the year ended 31 December 2019

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance, and position, including the impact of COVID-19 are described in note 29. The Company has net (liabilities)/ assets of \$(352,653,410) (2018: \$90,508,837). Snap Inc., the Company's ultimate parent, has provided a letter of support to enable the Company to settle all liabilities as they fall due within the next 12 months from the date of balance sheet approval. The director has made enquiries and performed procedures to satisfy themselves that the group will be able to provide the support pledged should it be called upon by the Company during the period. The director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' indemnities

Snap Inc. maintains liability insurance that covers the Company's directors. Snap Inc. has also provided an indemnity to the Company's directors, which is a qualifying third-party indemnity provision for the purpose 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
- she has taken all the steps that she ought to have taken as a director in order to make herself 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 has indicated its 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 board of directors on 30th September 2020 and signed on its behalf by:



.....
A L Reid
Director

Snap Group Limited

Director's responsibilities statement

The director is responsible for preparing the Strategic report, Director's report, and the financial statements in accordance with applicable law and regulations.

Under Companies Act 2006, the director is required to prepare such financial statements for each financial year. Under Companies Act 2006, the director has elected to prepare the financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he or she is 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 director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 in the preparation of 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 director is 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 the Company to ensure that the financial statements comply with the Companies Act 2006. The director is 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

Opinion

We have audited the financial statements of Snap Group Limited for the year ended 31 December 2019 which comprise of 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 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Emphasis of Matter - Effects of COVID-19

We draw attention to Note 3 and 29 of the financial statements, which describe the financial and operational consequences the company is facing as a result of COVID-19 including the impact of the pandemic on certain of the company's customers. Our opinion is not modified in respect of this matter.

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 director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 6, other than the financial statements and our auditor's report thereon. The director is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SNAP GROUP LIMITED (CONTINUED)

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 director's 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 director's report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of director

As explained more fully in the director's responsibilities statement set out on page 7, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines 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 director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director 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 LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 September 2020

Snap Group Limited

Profit and loss account

For the year ended 31 December 2019

	Note	2019 \$	2018 \$
Revenue	5	653,941,827	403,722,233
Cost of sales	6	<u>(495,084,122)</u>	<u>(373,330,755)</u>
Gross profit		158,857,705	30,391,478
Operating expenses	7	(598,920,987)	(341,657,664)
Other operating income		4,315,929	-
Foreign exchange gain/(loss)	8	<u>629,804</u>	<u>(1,221,953)</u>
Operating loss		(435,117,549)	(312,488,139)
Finance income	9	2,787,999	2,558,520
Finance costs	10	<u>(11,464,467)</u>	<u>(3,816,918)</u>
Loss before taxation		<u>(443,794,017)</u>	<u>(313,746,537)</u>
Tax on loss	14	15,411	923,433
Loss for the financial year		<u><u>(443,778,606)</u></u>	<u><u>(312,823,104)</u></u>

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

The notes on pages 15 to 43 form an integral part of these financial statements.

Snap Group Limited

**Statement of comprehensive income
For the year ended 31 December 2019**

	2019	2018
	\$	\$
Loss for the year	(443,778,606)	(312,823,104)
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on marketable securities measured at fair value through other comprehensive income	-	(61,764)
Total comprehensive loss for the year	<u>(443,778,606)</u>	<u>(312,884,868)</u>

The notes on pages 15 to 43 form an integral part of these financial statements

Snap Group Limited

Balance sheet

As at 31 December 2019

	Notes	2019 \$	2018 \$
ASSETS			
Fixed assets			
Intangible assets	15	9,866,190	14,328,140
Tangible fixed assets	16	6,460,548	6,754,001
Right-of-use assets	26	18,389,640	-
		<u>34,716,378</u>	<u>21,082,141</u>
Current assets			
Inventory	18	552,545	1,443,492
Trade and other receivables: amounts falling due after more than one year	19	184,514,872	206,428,955
Trade and other receivables: amounts falling due within one year	19	147,591,914	123,851,143
Contract assets	20	64,813,569	44,357,901
Cash and cash equivalents	21	64,288,787	37,498,047
Total current assets		<u>461,761,687</u>	<u>413,579,538</u>
Current liabilities			
Trade and other payables: amounts falling due within one year	23	(435,689,608)	(254,542,503)
Lease liabilities	27	(2,607,003)	-
Contract liabilities	20	(3,348,851)	(3,146,099)
		<u>20,116,225</u>	<u>155,890,936</u>
Net current assets		<u>20,116,225</u>	<u>155,890,936</u>
Total assets less current liabilities		<u>54,832,603</u>	<u>176,973,077</u>
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	23	(385,601,657)	(85,336,607)
Provisions	24	(4,091,837)	(1,127,633)
Lease liabilities	27	(17,792,519)	-
Net assets		<u>(352,653,410)</u>	<u>90,508,837</u>
EQUITY			
Called-up share capital	25	2,607	2,607
Share premium account	25	869,749,026	869,749,026
Share based payment reserve		(20,089,412)	(20,705,771)
Retained earnings	25	(1,202,315,631)	(758,537,025)
Total equity		<u>(352,653,410)</u>	<u>90,508,837</u>

The notes on pages 15 to 43 form an integral part of these financial statements.

Snap Group Limited

Balance sheet (continued)

As at 31 December 2019

The financial statements of Snap Group Limited (registration number: 09763672) were approved by the board of directors and authorised for issue on 30th September 2020

They were signed on its behalf by:



.....

A L Reid

Director

The notes on pages 15 to 43 form an integral part of these financial statements.

Snap Group Limited

Statement of changes in equity For the year ended 31 December 2019

	Called-up share capital	Share premium account	Share based payment reserve	Other reserve	Retained earnings	Total shareholders' funds
	\$	\$			\$	\$
Balance at 1 January 2018	2,607	869,749,026	(24,631,310)	61,764	(445,713,921)	399,468,166
Comprehensive income (loss)						
Loss for the financial year	-	-	-	-	(312,823,104)	(312,823,104)
Other comprehensive loss	-	-	-	(61,764)	-	(61,764)
Total comprehensive loss for the year	-	-	-	(61,764)	(312,823,104)	(312,884,868)
Adoption of new amendments to IFRS 2	-	-	4,849,432	-	-	4,849,432
Stock-based payments recharges	-	-	(15,391,600)	-	-	(15,391,600)
Stock-based payments transactions	-	-	14,467,707	-	-	14,467,707
	-	-	3,925,539	-	-	3,925,539
Balance at 31 December 2018	2,607	869,749,026	(20,705,771)	-	(758,537,025)	90,508,837
Balance at 1 January 2019	2,607	869,749,026	(20,705,771)	-	(758,537,025)	90,508,837
Comprehensive income (loss)						
Loss for the financial year	-	-	-	-	(443,778,606)	(443,778,606)
Other comprehensive loss	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(443,778,606)	(443,778,606)
Stock-based payments recharges	-	-	(22,880,727)	-	-	(22,880,727)
Stock-based payments transactions	-	-	23,497,086	-	-	23,497,086
	-	-	616,359	-	-	616,359
Balance at 31 December 2019	2,607	869,749,026	(20,089,412)	-	(1,202,315,631)	(352,653,410)

The notes on pages 15 to 43 form an integral part of these financial statements

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

1 General information

Snap Group Limited (the 'Company') is a private company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom ('UK').

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 Director's report on pages 2 to 6.

These financial statements are presented in US Dollars ('USD') and the functional currency of the Company continues to be USD. The functional currency is determined by the primary economic environment in which the Company operates. Revenue generated by the Company is largely either denominated in, or is influenced by USD. The main costs of providing such services relating to the revenue are also largely denominated or influenced by USD.

2 Adoption of new and revised Standards

Impact of initial application of other amendments to International Financial Reporting Standards and Interpretations

In the current year, the Company has applied a number of amendments to the International Accounting Standards ('IAS'), the International Financial Reporting Standards ('IFRS'), and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations issued by the International Accounting Standards Board ('IASB') that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements, except IFRS 16 'Leases'.

In the current year, the Company has applied the following:

- IFRS 16 'Leases' (effective date 1 January 2019);
- IFRIC 23 'Uncertainty of Tax Treatments' (effective date 1 January 2019);
- IFRS 9 (amendments) 'Financial Instruments - Prepayment Features with Negative Compensation and modifications of financial liabilities' (effective date 1 January 2019);
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments to long-term interest in associates and joint-ventures (effective date 1 January 2019);
- Amendments to IAS 19 'Employee Benefits' - Amendments to Plan Amendment, Curtailment and Settlements (effective date 1 January 2019); and
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date 1 January 2019).

General impact of application of IFRS 16 Leases

IFRS 16 supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The new standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

2 Adoption of new and revised Standards (continued)

General impact of application of IFRS 16 Leases (continued)

The Company adopted IFRS 16 using the modified retrospective transition method, with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- (a) recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments; and
- (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets'. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Increase/ (decrease) in assets and liabilities due to the adoption of IFRS 16 as at 1 January 2019 is, as follows:

	\$
Assets	
Right-of-use assets	17,645,319
Trade and other receivables (prepayments)	(755,936)
Total assets	16,889,383
Liabilities	
Trade and other payables (deferred rent)	(1,461,356)
Lease liabilities	18,350,739
Total liabilities	16,889,383

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

2 Adoption of new and revised Standards (continued)

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases.

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	\$
Operating lease commitments as at 31 December 2018	23,743,205
Weighted average incremental borrowing rate as at 1 January 2019	7%
Discounted operating lease commitments as at 1 January 2019	<u>18,350,739</u>
Lease liabilities as at 1 January 2019	18,350,739

3 Accounting policies

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 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 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 4.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

Summary of disclosure exemptions

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

- 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).
- Paragraph 79(a) (iv) of IAS 1, 'International Accounting Standards'.
- Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- 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),
 - 79(a) (iv) (International Accounting Standards),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 5, 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 31.

The principal accounting policies adopted are set out below.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position including the impact of COVID-19 are described in note 29. The Company has net (liabilities)/ assets of \$(352,653,410) (2018: \$90,508,837). Snap Inc., the Company's ultimate parent, has provided a letter of support to enable the Company to settle all liabilities as they fall due within the next 12 months from the date of balance sheet approval. The director has made enquiries and performed procedures to satisfy themselves that the group will be able to provide the support pledged should it be called upon by the Company during the period. The director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

3 Accounting policies (continued)

Revenue recognition

Revenue is recognized when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration we expected to receive in exchange for those goods or services. The Company determined collectability by performing ongoing credit evaluations and monitoring customer accounts receivable balances. VAT and other sales-related taxes payable to the taxation authority is excluded from reported revenue. Where revenue is recognised ahead of billing this results in a contract asset. Where revenue is recognised after billing this results in a contract liability.

The Company generates substantially all of its revenues by offering various advertising products on Snapchat, which include Snap Ads and Sponsored Creative Tools, and measurement services, referred to as advertising revenue. Sponsored Creative Tools include Sponsored Geofilters and Sponsored Lenses. Sponsored Geofilters allow users to interact with an advertiser's brand by enabling stylized brand artwork to be overlaid on a Snap. Sponsored Lenses allow users to interact with an advertiser's brand by enabling branded augmented reality experiences.

The substantial majority of advertising revenue is generated from the display of advertisements on Snapchat through contractual agreements that are either on a fixed fee basis over a period of time or based on the number of advertising impressions delivered. Revenue related to agreements based on the number of impressions delivered is recognized when the advertisement is displayed. Revenue related to fixed fee arrangements is recognized ratably over the service period, typically less than 30 days in duration, and such arrangements do not contain minimum impression guarantees. In determining whether an arrangement exists, the Company ensures that an agreement, such as an insertion order or self-serve terms, have been fully executed or accepted electronically. The Company sells advertising directly to advertisers, either through the Snap sales team, or an authorized sales representative ('Snap-sold' revenue) and certain partners that provide content on Snapchat ('media partners') also sell directly to advertisers ('partner-sold' revenue). Snap Ads may be subject to revenue sharing agreements between the Company and its media partners. The Company's Sponsored Creative Tools and measurement services are only Snap-sold and are not subject to revenue sharing arrangements. Snap-sold revenue is generally recognized based on the gross amount that the Company charges the advertiser. Partner-sold revenue is recognized based on the net amount of revenue to be received from the media partners.

The Company recognizes Snap-sold revenue on a gross basis predominantly because the Company is the primary obligor responsible for fulfilling advertisement delivery, including the acceptability of the services delivered. For Snap-sold advertising, the Company enters into contractual arrangements directly with advertisers or via an authorized sales representative who enters into an arrangement with the customer on behalf of Snap. The Company is directly responsible for the fulfilment of the contractual terms and any remedy for issues with such fulfilment. For Snap-sold revenue, the Company also has latitude in establishing the selling price with the advertiser, as the Company sells advertisements at a rate determined at its sole discretion.

The Company recognizes partner-sold revenue on a net basis predominantly because the media partner, and not the Company, is the primary obligor responsible for fulfilment, including the acceptability of the services delivered. In partner-sold advertising arrangements, the media partner has a direct contractual relationship with the advertiser. There is no contractual relationship between the Company and the advertiser for partner-sold transactions. When a media partner sells advertisements, the media partner is responsible for fulfilling the advertisements, and accordingly, the Company has determined the media partner is the primary obligor. Additionally, the Company does not have any latitude in establishing the price with the advertiser for partner-sold advertising. The media partner may sell advertisements at a rate determined at its sole discretion. For the periods presented, partner-sold revenue was not material.

The Company also generates intercompany revenue from the sale of advertising space to related entities and revenue from sales of its hardware product, Spectacles.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

Finance income

Finance income is primarily composed of interest income, which is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

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.

Exchange differences are recognised in profit or loss in the period in which they arise.

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.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

Tax (continued)

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

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

Current and deferred tax for the year

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

Tangible fixed assets

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

Depreciation

Depreciation is calculated 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, and equipment	5 years
Computer equipment	3 years
Property, plant, and 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.

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.

3 Accounting policies (continued)

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.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Intellectual property	5 years straight line

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 and loss when the asset is derecognised.

Impairment of non-financial assets

Non-derivative 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.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset company that generates cash flows that largely are independent from other assets and companies. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (company or units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

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.

Leases (after the adoption of IFRS 16)

The company as lessee

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

Leases (continued)

The company as lessee (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation period starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Balance sheet.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "other expenses" in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Leases (prior to the adoption of IFRS 16)

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.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

3 Accounting policies (continued)

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

Financial assets of the Company include cash and trade and other receivables. Trade and other receivables are initially recognised when they are originated and are measured at the transaction price. These financial assets did not contain a significant financing component for the periods presented.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities of the Company include trade and other payables. Financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

The Company recognises the financial liabilities at amortised cost using the effective interest method as they are not classified as held-for-trading, not a derivative, and not designated as such on initial recognition. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

3 Accounting policies (continued)

Share-based payments

Where Snap Inc. has granted rights to its equity instruments to employees and non-employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. Refer to note 30 for further details. Restricted stock units ('RSUs') granted to employees before 31 December 2016 generally contain both service-based and event-based conditions to vest in the underlying shares. RSUs granted after 31 December 2016 generally contain service-based conditions to vest in the underlying shares. The event-based condition will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of Snap Inc.'s assets or a merger involving the sale of a majority of the outstanding shares of Snap Inc.'s voting shares, or (2) the effective date of the registration statement of Snap Inc. in connection with a qualifying initial public offering. The event-based condition was satisfied in March 2017. The event-based condition did not impact the timing of recognition of the expense. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on an accelerated attribution 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 the service-based condition. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflected the revised estimate, with a corresponding adjustment to equity reserves.

4 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 director has 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.

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 of tax returns by tax authorities.

Snap Group Limited

Notes to the financial statements

For the year ended 31 December 2019

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

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 estimates used in the value in use calculations are reviewed internally and approved by the Company.

5 Revenue

	2019 \$	2018 \$
Disaggregation of revenue		
Sale of goods	2,374,802	5,295,091
Rendering of services	603,342,061	365,346,446
Rendering of services - Intercompany	48,224,964	33,080,696
	<u>653,941,827</u>	<u>403,722,233</u>
Timing of revenue recognition		
Goods transferred at a point in time	2,374,802	5,295,091
Services transferred overtime	651,567,025	398,427,142
	<u>653,941,827</u>	<u>403,722,233</u>

An analysis of the Company's revenue by class of business and principal place of business is set out below.

	2019 \$			2018 \$		
	Third Party	Intercompany	Total	Third Party	Intercompany	Total
North America (1)	39,239,403	1,650,944	40,890,347	27,726,621	4,681,252	32,407,873
Europe (2)	243,703,419	33,339,106	277,042,525	146,869,999	18,625,397	165,495,396
Rest of World	321,465,838	14,543,117	336,008,955	192,267,259	13,551,705	205,818,964
	<u>604,408,660</u>	<u>49,533,167</u>	<u>653,941,827</u>	<u>366,863,879</u>	<u>36,858,354</u>	<u>403,722,233</u>

(1) North America includes Mexico, the Caribbean, and Central America.

(2) Europe includes Russia and Turkey.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

6 Cost of sales

	2019	2018
Note	\$	\$
Advertising cost of sales	74,797,135	56,983,583
Hosting costs	396,700,774	310,315,363
Intercompany product cost of sales	1,257,407	2,875,493
Other cost of sales	22,328,806	2,093,723
Impairment of inventory	18 -	1,062,593
	<u>495,084,122</u>	<u>373,330,755</u>

7 Operating expenses

	2019	2018
Note	\$	\$
Amortisation of intangible assets	15 4,461,950	4,535,474
Depreciation of tangible fixed assets	16 2,630,950	2,703,060
Depreciation of right-of-use assets	26 2,412,733	-
Operating lease expense - property	-	2,886,449
Intercompany royalty expense	32,138,093	31,131,028
Intercompany management services expense	117,063,753	83,743,313
Intercompany research and development expense	305,257,944	131,910,880
Intercompany sales and marketing expense	35,608,541	26,938,736
Sales and marketing costs	12,658,805	2,491,310
Staff costs	11 63,841,884	39,461,340
General and administrative overheads	22,846,334	15,856,074
	<u>598,920,987</u>	<u>341,657,664</u>

8 Foreign exchange differences

	2019	2018
	\$	\$
Foreign exchange losses/(gains)	<u>(629,804)</u>	<u>1,221,953</u>

9 Finance income

	2019	2018
	\$	\$
Finance income from group undertakings	53,058	64,216
Other finance income	2,734,941	2,494,304
	<u>2,787,999</u>	<u>2,558,520</u>

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2019

10 Finance costs

	2019	2018
	\$	\$
Finance costs from group undertakings	10,176,826	3,816,918
Interest on lease liabilities	1,287,641	-
	<u>11,464,467</u>	<u>3,816,918</u>

11 Staff costs

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

	2019	2018
	No.	No.
Administration	44	31
Sales and operations	98	96
Engineering	42	30
	<u>184</u>	<u>157</u>

Their aggregate remuneration in the year comprised:

	2019	2018
	\$	\$
Wages and salaries	52,338,076	32,472,715
Social security costs and benefits	10,157,223	5,774,583
Pension costs	1,049,349	816,422
Other	297,236	397,620
	<u>63,841,884</u>	<u>39,461,340</u>

Included in wages and salaries is share-based payments expense of \$23,497,086 (2018: \$9,730,587).

12 Directors' remuneration

The directors' services to the Company during the period have been considered insignificant. Therefore, the directors did not receive any remuneration for their qualifying services. The directors do not hold any equity in the Company and did not participate in a defined benefit or money purchase pension scheme.

13 Auditor's remuneration

	2019	2018
	\$	\$
Services provided by the Company's auditor		
Fees payable for the audit of the Company's annual financial statements	<u>223,510</u>	<u>186,279</u>

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

14 Tax on loss

	2019 \$	2018 \$
Current tax	(15,411)	(923,433)
Deferred tax	-	-
Tax on loss	(15,411)	(923,433)

The items accounting for the differences between tax on loss computed at the UK standard rate and recorded for tax on loss are as follows:

	2019 \$	2018 \$
Loss before taxation	(443,794,017)	(313,746,537)
Tax on loss at standard UK rate of corporation tax at standard rate of 19% (2018: 19%)	(84,320,863)	(59,611,842)
Effects of:		
Amounts not recognised	85,639,384	57,747,497
Other	(1,333,932)	940,912
Tax charge for the year	(15,411)	(923,433)

As of December 31, 2019, the Company had \$1,162,643,686 (2018:\$730,903,971) of UK tax losses that can be carried over indefinitely. A deferred tax asset has not been recognised in respect of these losses as their future utilization is uncertain.

Factors affecting future tax charge

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. A change to the UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The enacted change maintains the applicable UK tax rate at 19% rather than the previously enacted reduction to 17%. As the new rate was not substantively enacted as at 31 December 2019, the deferred tax asset as at the balance sheet date is measured at the enacted tax rate of 17%.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

15 Intangible assets

Cost or valuation	Intellectual property \$
At 1 January 2019	22,863,738
Additions	-
Disposals	-
At 31 December 2019	22,863,738
Accumulated amortisation	
At 1 January 2019	(8,535,598)
Amortisation charge	(4,461,950)
At 31 December 2019	(12,997,548)
Carrying amount	
At 31 December 2019	<u>9,866,190</u>
At 31 December 2018	<u>14,328,140</u>

Individually material intangible assets:

In 2017, the Company purchased an item of intellectual property which was considered to be an individually material intangible asset. The intangible asset has a carrying amount of \$5,511,520 (2018: \$8,267,280) and has a remaining amortisation period of 2 years (2018: 3 years).

16 Property, plant and equipment

	Leasehold improvements \$	Furniture, fittings, and equipment \$	Computer equipment \$	Property, plant, and equipment \$	Total \$
Cost					
Balance at 1 January 2019	5,220,897	1,170,495	599,694	3,916,012	10,907,098
Additions	44,405	50,699	74,258	2,265,786	2,435,148
Disposals	-	-	-	(97,651)	(97,651)
Balance at 31 December 2019	<u>5,265,302</u>	<u>1,221,194</u>	<u>673,952</u>	<u>6,084,147</u>	<u>13,244,595</u>
Accumulated depreciation					
Balance at 1 January 2019	(1,377,580)	(426,804)	(224,766)	(2,123,947)	(4,153,097)
Depreciation	(734,040)	(234,869)	(204,004)	(1,458,037)	(2,630,950)
Balance at 31 December 2019	<u>(2,111,620)</u>	<u>(661,673)</u>	<u>(428,770)</u>	<u>(3,581,984)</u>	<u>(6,784,047)</u>
Carrying amount at 31 December 2019	<u>3,153,682</u>	<u>559,521</u>	<u>245,182</u>	<u>2,502,163</u>	<u>6,460,548</u>
Carrying amount at 31 December 2018	<u>3,843,317</u>	<u>743,691</u>	<u>374,928</u>	<u>1,792,065</u>	<u>6,754,001</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

17 Investments in subsidiaries

	2019	2018
	\$	\$
Fair value		
At 1 January	-	6,520,100
Disposals	-	(6,520,100)
At 31 December	<u>-</u>	<u>-</u>

The reduction in 2018 reflects the dissolution of Obvious Engineering Limited, a subsidiary of the Company, on 6 November 2018. No gain or loss was recorded as a result of this dissolution.

18 Inventory

	2019	2018
	\$	\$
Finished goods and goods for resale in transit	<u>552,545</u>	<u>1,443,492</u>

The Company recorded \$nil (2018: \$1,062,593) of inventory impairment expense related to Spectacles in cost of sales

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

19 Trade and other receivables

	2019 \$	2018 \$
Trade receivables	102,190,604	69,643,369
Amounts owed by group undertakings - loans and borrowings	4,270,869	-
Amounts owed by group undertakings	5,503,078	19,040,033
Other receivables	5,731,696	3,401,462
Prepayments	698,280	2,565,528
VAT receivable	-	188,144
Prepaid royalty	25,100,000	25,100,000
Deferred royalty	4,097,387	3,912,607
	<u>147,591,914</u>	<u>123,851,143</u>

Amounts owed by group undertakings are unsecured and repayable within 12 months. The amounts owed either bear interest equal to LIBOR plus an arm's length interest rate spread, or do not bear any interest.

During the period, Snap Inc. acquired and divested certain assets, which led to changes in intellectual property in Snap Inc., details of which can be found in Snap Inc.'s 2019 Annual Report on Form 10-K, which can be obtained as set out in note 31. As a result, Snap Inc. licensed additional rights to the Company leading to an increase in the deferred royalty recognised by the Company of \$20,637,492, offset by \$15,158,264 due to Snap Inc.'s divestitures. Additionally, the Company recorded \$4,315,929 in other operating income for the Company's share of Snap Inc.'s gain upon divestitures.

	2019 \$	2018 \$
Amounts falling due after more than one year:		
Other receivables	2,127,516	1,252,302
Prepaid royalty	102,348,714	127,448,714
Deferred royalty	80,038,642	77,727,939
	<u>184,514,872</u>	<u>206,428,955</u>
Total trade and other receivables	<u>332,106,786</u>	<u>330,280,098</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

20 Contract balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivables (trade receivables), unbilled receivables (contract assets, also known as accrued revenue), and customer advances and deposits (contract liabilities, also known as deferred revenue). Generally, billing occurs subsequent to revenue recognition resulting in contract assets. However, the Company sometimes receives advances or deposits from its customers, before revenue is fully recognized, resulting in contract liabilities. These assets and liabilities are reported on the balance sheet on a contract-by-contract basis at the end of each reporting period. Changes in the contract asset and liability balances during the year ended 31 December 2019 and 31 December 2018, were not materially impacted by factors other than increase in trade.

Revenue recognized during the year ended 31 December 2019 and 31 December 2018 that was included in the contract liability balance at the beginning of each year was \$3,146,099 and \$766,670, respectively.

	2019	2018
	\$	\$
Contract assets		
Amounts falling due within one year:		
Accrued revenue	64,813,569	44,357,901
	2019	2018
	\$	\$
Contract liabilities		
Amounts falling due within one year:		
Deferred revenue	3,348,851	3,146,099

21 Cash and cash equivalents

	2019	2018
	\$	\$
Cash at bank and in hand	64,288,787	37,192,546
Marketable securities - less than 90 days	-	305,501
	64,288,787	37,498,047

At 31 December 2019, there were no marketable securities with a maturity of less than 90 days.

22 Cash pooling arrangement

In 2018, the Company entered into a cash pooling arrangement with related parties. Any amounts borrowed by the Company from the cash pool or provided by the Company to the cash pool bear interest at the multi-currency pool interest rate ("MCP") adjusted by a spread agreed to by the Company and the counterparty from time to time, which rate shall not exceed the maximum permissible rate by law. The MCP is generally redetermined on a daily basis based on a daily market rate.

Receivables arising from the cash pooling arrangement are included within amounts owed by group undertakings, and amounts borrowed from the cash pooling arrangement are included within amounts owed to group undertakings.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

23 Trade and other payables

	2019	2018
	\$	\$
Trade payables	7,154,759	4,252,180
Payments on account	1,648,204	991,155
Amounts owed to group undertakings - loans and borrowings	32,971,634	33,101,148
Amounts owed to group undertakings	300,818,070	144,937,804
Accrued expenses	88,469,351	65,754,387
Social security and other taxes	575,840	457,810
Acquisition holdback liability	-	2,000,000
VAT payable	4,051,750	3,048,019
	<u>435,689,608</u>	<u>254,542,503</u>

	2019	2018
	\$	\$
Amounts falling due between two and five years		
Deferred rent	-	1,461,356
Amounts owed to group undertakings - loans and borrowings	296,827,346	-
Amounts owed to group undertakings	<u>31,263,924</u>	<u>24,084,108</u>
	<u>328,091,270</u>	<u>25,545,464</u>

	2019	2018
	\$	\$
Amounts falling due after more than five years		
Amounts owed to group undertakings	<u>57,510,387</u>	<u>59,791,143</u>

	2019	2018
	\$	\$
Trade and other payables: amounts falling due after more than one year	<u>385,601,657</u>	<u>85,336,607</u>

Amounts owed to group undertakings are unsecured and have been apportioned between those repayable within one year, 2-5 years, and over 5 years. The amounts owed either bear interest equal to LIBOR plus an arm's length interest rate spread, or have an interest rate in the range of 2.25% to 4.79%, or (in the case of certain amounts falling due within one year) do not bear any interest.

24 Provisions

	Provision for social security liability relating to stock-based compensation
	\$
Balance at 1 January 2019	1,127,633
Net additions during the year	<u>2,964,204</u>
Balance at 31 December	<u>4,091,837</u>

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

25 Called-up share capital and reserves

Allotted, called-up and fully paid shares

	2019		2018	
	Shares	\$	Shares	\$
Ordinary shares of £1 each	2,000	2,607	2,000	2,607

The Company has one class of ordinary shares which carry no right to fixed income.

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.

Other reserve

The other reserve contains the changes in fair value of financial assets other than trading assets. The Company classifies certain marketable securities as being held fair value through the statement of other comprehensive income.

26 Leases

Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period

	Office spaces \$
Cost	
Recognition of right-of-use asset on adoption of IFRS 16 at 1 January 2019	17,645,319
Additions	3,157,054
Balance at 31 December 2019	<u>20,802,373</u>
Accumulated depreciation	
Balance at 1 January 2019	-
Depreciation	(2,412,733)
Balance at 31 December 2019	<u>(2,412,733)</u>
Carrying amount at 31 December 2019	<u>18,389,640</u>

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

26 Leases (company as a lessee) (continued)

The average lease term is 7 years.

The maturity analysis of lease liabilities is presented in note 27.

27 Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Office spaces \$
Balance at 1 January 2019	18,350,739
Additions	3,461,746
Accretion of interest	1,287,641
Payments - lease	(3,536,304)
Foreign exchange loss	835,700
Balance at 31 December 2019	<u>20,399,522</u>
Current	2,607,003
Non-current	<u>17,792,519</u>
	<u>20,399,522</u>

Set out below is the maturity analysis of lease liabilities:

	2019 \$
Year 1	3,894,835
Year 2	3,732,920
Year 3	3,786,363
Year 4	3,894,835
Year 5	3,894,835
Onwards	<u>6,128,164</u>
	25,331,952
Impact of discounting	<u>(4,932,430)</u>
	<u>20,399,522</u>
Analysed as:	
Non-current	17,792,519
Current	<u>2,607,003</u>
	<u>20,399,522</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

27 Lease liabilities (continued)

The following are the amounts recognised in profit or loss:

	2019
\$	
Depreciation expense of right-of-use assets	2,412,733
Interest expense on lease liabilities	1,287,641
Total amount recognised in profit or loss	3,700,374
The total cash outflow during the year for leases amounted to \$3,536,304.	

28 Contingent liabilities

At 31 December 2019, there were no pending matters or settlements outstanding.

29 Events after the balance sheet date

No matters or circumstances, other than as described below, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

COVID-19

The Company's business and operations could be adversely affected by health epidemics, including the recent COVID-19 pandemic, impacting the markets and communities in which the Company and the Company's partners, advertisers, and users operate. In December 2019, a disease referred to as COVID-19 was reported and has spread to many countries worldwide, including the United Kingdom.

The ongoing global COVID-19 pandemic has adversely impacted, and may continue to adversely impact, many aspects of the Company's business. As certain of the Company's advertisers experience downturns or uncertainty in their own business operations and revenue because of the economic effects, including resulting from the spread of COVID-19, they have and may halt, whether temporarily or permanently, or continue to decrease their advertising spending and may focus their advertising spending more on other platforms, all of which may result in decreased advertising revenue. The Company may also experience difficulty forecasting advertising revenue by its partners on the Snapchat platform. Furthermore, a portion of the Company's advertising revenue is related to in-person events, such as sporting events, music festivals, and the Olympics, that have been or may be postponed or cancelled. A decline in advertising revenue or the collectability of the Company's receivables could seriously harm the Company's business.

The COVID-19 pandemic has been declared a global emergency. In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, quarantines, executive orders, physical distancing requirements, shelter-in-place orders, and similar government orders and restrictions in order to control the spread of the disease. Such orders or restrictions, or the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, and cancellation or postponement of events, among other effects that could negatively impact productivity and disrupt the Company's operations and those of the Company's partners, advertisers, and users. The Company has implemented a work-from-home policy for substantially all of the Company's employees, and the Company may take further actions that alter the Company's operations as may be required by governmental, or local authorities, or which the Company determines are in the Company's best interests. While most of the Company's operations can be performed remotely, there is no guarantee that the Company's employees will be as effective while working remotely because the Company's team is dispersed, many employees may have additional personal needs to attend to (such as looking after children as a result of school closures or family who become sick), and employees may become sick themselves and be unable to work.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

29 Events after the balance sheet date (continued)

Decreased effectiveness of the Company's team could adversely affect the Company's results due to the Company's inability to meet in person with potential advertisers, longer time periods to review and approve ads, longer time to respond to application performance issues or spam, extended timelines for product reviews and a corresponding reduction in innovation, or other decreases in productivity that could seriously harm the Company's business. Furthermore, the Company may decide to postpone or cancel planned investments in the Company's business in response to changes in the Company's business as a result of the spread of COVID-19, which may impact the Company's user engagement and rate of innovation, either of which could seriously harm the Company's business.

As a result of the COVID-19 pandemic, the Company's partners who provide content or services to the Company may experience delays or interruptions in their ability to create content or provide services, if they are able to do so at all. A decrease in the amount or quality of content available on Snapchat, or an interruption in the services provided to us, could lead to a decline in user engagement, which could seriously harm the Company's business.

The effects of the COVID-19 pandemic on user engagement is highly uncertain, and may lead to unpredictable results in the short-term and long-term. While the COVID-19 pandemic initially resulted in Snap's community using the Snapchat platform to keep in contact with friends and family, there is no assurance that such trends will continue. The Company may also experience inconsistent or negative engagement as user behavior on the platform changes, including changes in user activity as a result of continued shelter-in-place orders. In addition, while the potential impact and duration of the COVID-19 pandemic on the global economy and the Company's business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant volatility and disruption of global financial markets, reducing the Company's ability to access capital, which could negatively affect the Company's liquidity in the future.

The global impact of COVID-19 has and continues to rapidly evolve, and the Company will continue to monitor the situation closely. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. The Company does not yet know the full extent of potential delays or impacts on the Company's business, operations, or the global economy as a whole. While the spread of COVID-19 may eventually be contained or mitigated, there is no guarantee that a future outbreak of this or any other widespread epidemics will not occur, or that the global economy will recover, either of which could seriously harm the Company's business.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering these events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

Intercompany cost-sharing arrangement

In June 2019, the U.S. Court of Appeals for the Ninth Circuit ('Ninth Circuit') overturned the 2015 U.S. Tax Court decision in *Altera Corp. v. Commissioner*, thereby upholding the portion of the U.S. Treasury regulations issued under Section 482 of the U.S. Internal Revenue Code requiring related-party participants in a cost sharing arrangement to share stock-based compensation costs. In June 2020, the Supreme Court of the United States denied the taxpayer's petition to review the Ninth Circuit's decision. As a result, the Company recorded a cumulative adjustment to its intercompany cost sharing transactions which resulted in a net additional cost of \$175,848,452.

Promissory note

On 9 September 2020, the Company issued an unsecured promissory note to Snap Inc. which allows the Company to borrow up to US\$ 500,000,000. The facility has a term of five years and amounts are repayable at maturity.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

30 Share-based payments

Share-based Compensation Plans

The Company provides benefits to eligible employees in the form of Snap Inc. stock-based awards. Snap Inc. maintains three stock-based employee compensation plans which are managed at the group level. Further detailed information regarding these plans are discussed on pages 80 to 82 of Snap Inc.'s 2019 annual report on Form 10-K, which is not part of these financial statements and can be obtained as filed with the United States Securities and Exchange Commission.

The Company measures and recognizes compensation expense for share-based payment awards, including share options and RSUs granted to employees, based on the grant date fair value of the awards. The grant date fair value of share options is estimated using a Black-Scholes option pricing model. The fair value of share-based compensation for share options is recognized on an accelerated attribution basis over the vesting period during which services are provided in exchange for the award.

RSUs granted to employees before 31 December 2016 generally contain both service-based and event-based conditions to vest in the underlying shares. Awards granted after 31 December 2016 generally contain only service-based conditions to vest in the underlying shares. The event-based condition will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of Snap Inc.'s assets or a merger involving the sale of a majority of the outstanding shares of Snap Inc.'s voting shares, or (2) the effective date of the registration statement of Snap Inc. in connection with a qualifying initial public offering. The event-based condition was determined to be a non-vesting condition as defined in IFRS 2 - Share-based payment and was satisfied in March 2017.

The grant date fair value of RSUs is estimated based on the fair value of Snap Inc.'s underlying Class A common stock. For awards with event-based conditions, the fair market value at grant date has been adjusted downwards to factor in the likelihood of meeting the event-based condition. The service condition for RSUs granted prior to February 2018 is generally satisfied over four years, 10% after the first year of service, 20% over the second year, 30% over the third year, and 40% over the fourth year. The service condition for RSUs granted after February 2018 is generally satisfied in equal monthly or quarterly instalments over four years. For RSUs, the Company recognizes share-based compensation expense using the accelerated attribution basis over the vesting period.

Share-based compensation expense recognized in the profit or loss account for all periods presented is based on awards that are expected to vest less estimated forfeitures. The Company estimates the forfeiture rate of its share-based awards at the group level based on an analysis of actual forfeitures, employee turnover, and other factors. A modification of the terms of a share-based award is treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value of the modification to the award.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

30 Share-based payments (continued)

RSUs

The following tables summarize the RSU activity for the Company's employees during the year ended 31 December 2018 and 2019:

	Class A outstanding RSUs	Class B outstanding RSUs	Weighted average grant-date fair value per RSU US\$
Unvested at 31 December, 2017	2,978,801	193,959	9.74
Granted	1,921,844	-	12.91
Vested	(986,569)	(191,346)	9.77
Forfeited	(414,783)	(2,613)	12.53
Unvested at 31 December, 2018	<u>3,499,293</u>	<u>-</u>	<u>11.14</u>
Unvested at 31 December, 2018	3,499,293	-	11.14
Granted	2,192,098	-	11.79
Vested	(2,082,961)	-	10.05
Forfeited	(190,299)	-	10.89
Unvested at 31 December, 2019	<u>3,418,131</u>	<u>-</u>	<u>12.77</u>

Each RSU issued to employees of the Company by Snap Inc. settles to one share of Snap Inc.'s Class A or Class B common stock. No amounts are paid or payable by the recipient on receipt of the RSU. The RSUs may be entitled to dividends when and if declared by Snap Inc. The RSUs do not entitle the award-holder to any voting rights.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

30 Share-based payments (continued)

The total fair value, as determined by the then fair value of Snap Inc. 's underlying common stock on settlement date, of RSUs vested during the year ended 31 December 2019 was \$22,880,727 (2018: \$15,264,623).

Total unrecognized compensation cost of RSUs was \$17,143,994 (2018: \$17,109,623) as of 31 December 2019 and is expected to be recognized over a weighted-average period of 1.6 years (2018: 1.7 years).

For the year ended 31 December 2019, in connection with the settlement of RSUs to shares issued to employees, to pay applicable taxes on behalf of the employee, Snap Inc. withheld nil (2018: 39,004) shares of common stock by net settlement and sold 1,017,294 shares (2018: 665,262) of common stock on behalf of employees. For the year ended 31 December, 2019, the Company remitted \$12,359,840 (2018: 8,272,919) in cash to meet the related tax withholding requirements on behalf of the Company's employees. As of 31 December 2019, the Company recorded a \$22,880,727 (2018: \$15,264,944) liability within amounts owed to group undertakings for the reimbursement of its employees' taxable income upon vesting of RSUs payable to Snap Inc. The entire \$22,880,727 (2018: \$15,264,944) liability recorded as of 31 December 2019 was previously recognized as share-based payment expense against the share-based payment reserve.

Share Options

The following tables summarize the stock option award activity for the Company's employees under the Share Plans during the year ended 31 December 2018 and 2019:

	Class A number of shares	Weighted average exercise price US\$	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at 31 December, 2017	151,463	\$14.72	4.99	\$-
Granted	-	-	-	\$-
Exercised	(26,477)	\$-	-	\$-
Forfeited	(8,654)	\$-	-	\$-
Outstanding at 31 December, 2018	116,332	\$14.72	4.00	\$-
Exercisable at 31 December, 2018	116,332	\$14.72	4.00	\$-
Vested and expected to vest at 31 December, 2018	116,332	\$14.72	4.00	\$-
Outstanding at 31 December, 2018	116,332	\$14.72	4.00	\$-
Granted	-	-	-	\$-
Exercised	-	\$-	-	\$-
Forfeited	(3,069)	\$-	-	\$-
Outstanding at 31 December, 2019	113,263	\$14.72	3.00	\$-
Exercisable at 31 December, 2019	113,263	\$14.72	3.00	\$-
Vested and expected to vest at 31 December, 2019	113,263	\$14.72	3.00	\$-

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

30 Share-based payments (continued)

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying share option awards and the closing market price of Snap Inc.'s Class A common share as of 31 December 2018 and 2019.

Each option granted to employees of the Company by Snap Inc. settles to one share of Snap Inc.'s Class A common stock. No amounts are paid or payable by the recipient on receipt of the option. The options may be entitled to dividends when and if declared by Snap Inc. The options do not entitle the option-holder to any voting rights. Employees must pay the option exercise price or elect to use the cashless exercise method to exercise a vested option. Options may be exercised at any time from the date of vesting to the date of their expiration subject to restriction on cashless exercises.

The total intrinsic value of options exercised during the period ending 31 December 2019 was \$nil (2018: \$126,656). As of 31 December 2019, the Company recorded a \$nil (2018: \$126,656) liability within amounts owed to group undertakings for the reimbursement of its employees' taxable income upon exercise of options payable to Snap Inc. In the prior year, the entire \$126,656 liability was previously recognized as share-based payment expense against the share based payment reserve in 2018.

In 2018, the Company adopted the amendments to IFRS 2 that are effective for annual periods beginning on or after 1 January 2018; these amendments introduced an exception where certain qualified share-based payment transactions with net settlement features no longer need to be bifurcated between separate equity- and liability-settled awards. As of 31 December 2017, the Company had recognized a \$9,586,553 liability within other payables related to the liability-settled portion of its unvested awards with net settlement features, which consisted of \$4,737,121 of additional share-based compensation expense and \$4,849,432 recharged in prior years to the share-based payment reserve. The \$9,568,553 was reversed upon adoption of the new amendments.

Total share-based payments expense, inclusive of both RSUs and share options, recognized in the year ended 31 December 2019 was \$23,497,086 (2018: \$9,730,587). Excluding the one-time reversal of expense upon adoption of the new amendments to IFRS 2, the Company would have recognized total share-based payments expense of \$14,467,707 in the year ended 31 December 2018.

31 Controlling party

The immediate parent of the Company is Snap International II Limited, a company incorporated in England and Wales with its registered office at 77 Shaftesbury Avenue, Soho, London, W1D 5DU.

The ultimate controlling party of the Company is Snap Inc., a company incorporated in the United States with its registered office at 2772 Donald Douglas Loop North, Santa Monica, CA 90405.

Snap Inc. is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2019. The financial statements of Snap Inc. are available at <https://investor.snap.com>.