

Registered Number: 06400760

FARFETCH

Farfetch UK Limited

**Statutory financial statements
for the year ended 31 December 2018**

Registered Office

**The Bower
211 Old Street
London
EC1V 9NR**



Farfetch UK Limited
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for the year ended 31 December 2018

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**Farfetch UK Limited
Company information
for the year ended 31 December 2018**

Directors: A G Robb
E G Jordan
J M F Neves

Secretary: Wilton Corporate Service Limited

Registered office: The Bower
211 Old Street
London
England
EC1V 9NR

Registered number: 06400760

Independent auditors: PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Farfetch UK Limited
Strategic report
for the year ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018 for Farfetch UK Limited ("the Company"). The Company is a wholly owned subsidiary of Farfetch.com Limited which is fully owned by Farfetch Limited (the "Group").

Principal activity and review of business

The net loss for the year, after taxation, amounted to £74,180,000 (2017: loss of £75,772,000). In 2018, Gross Merchandise Value¹ ("GMV") on a constant currency basis increased by 56% to £1,042,247,000 (2017: £702,624,000). Revenue increased by 49% to £369,381,000. Net cash increased by £530,633,000 to £797,520,000 as at 31 December 2018, as a result of the IPO. We delivered an underlying operating loss of £68,635,000 and negative Adjusted EBITDA² of £56,780,000 as shown below:

	2018 £'000	2017 £'000
Underlying operating loss	(68,635)	(49,498)
Depreciation	922	647
Amortisation	10,933	5,035
Adjusted EBITDA²	(56,780)	(43,816)

The principal activity of the Company was the operation of the Marketplace for fashion retailers, designers and brands to be able to offer their products for sale to the public (including associated services such as production, logistics, customer services and payment processing). Research and development activities continued with respect to the development of the Farfetch platform, including the Marketplace. The directors anticipate this activity to continue.

Key performance indicators (KPIs)

The Marketplace has over 1,000 partner brands and boutiques (2017: over 900).

The average order value on the Marketplace was £465 (2017: £481).

The directors, monitor revenue and profits or losses as set out in the statement of profit or loss on page 10. The directors are of the opinion that disclosing additional key performance indicators, other than those above, is not necessary to understand the development, performance and position of the business.

Business environment

The Company is a subsidiary of Farfetch.com limited which is in turn owned by Farfetch Limited (the "Group") and operates in the fashion industry. The principal territories that that Company operates within are set out in note 4.

The Company met the challenges of a dynamic business environment in 2018 and performed well with strong growth in GMV and associated income.

Strategy

The Company's current strategy is to:

- Act as a global ecommerce platform for fashion boutiques and brands
- Provide consumers with revolutionary ways to buy fashion
- Develop omni-channel solutions for the retail community

¹ "Gross Merchandise Value", or "GMV," means the total value of orders processed. GMV is inclusive of product value, shipping and duty. It is net of returns, value added taxes and cancellations. GMV does not represent revenue earned by the Group, although GMV and revenue are correlated.

² Adjusted EBITDA is operating loss before, exceptional items, share based payment expense, depreciation and amortisation.

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

Future outlook

The Company is showing strong growth in both demand for, and supply of, products through the Farfetch platform. The Company is confident in its future outlook.

Events after the reporting year

Subsequent events are disclosed in note 25 to the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are:

- The ongoing change in the online fashion market including potential emergence of new competitors and increased activity from existing competitors, including offline retailers moving online. This is mitigated by strong marketing, understanding of emerging fashion trends and changes in demand, plus strong relationships with our boutique network.
- The Company operates in a number of countries which expose the Company to currency movements. This is partially offset by agreeing favorable foreign exchange rates in advance for transactions using forward foreign exchange contracts.
- The Company's Marketplace and associated software is key to the business. IT failures could disrupt the business leading to increased losses and loss of customers. The Company takes adequate precautions and security measures to mitigate against this risk by taking regular backups of the system, safe guarding against computer viruses, and putting in place backup servers at a different location to host the website in case of emergencies.
- The ability of partners to be able to fulfill orders given the expansive customer network in relation to the size of boutiques. This risk is mitigated through us increasing the amount of partners we have which in turn increases our supply base. We have also strengthened our relationships with the partner network by providing them with sales analysis and financing opportunities through our associate Farfetch Finance Limited.
- The retention of employees and attracting top talent to support growth. The Company's success depends on its ability to attract, motivate and retain key employees. This is mitigated through various financial and non-financial measures including long and short-term incentive plans (including share options) and other employee benefits including career development opportunities.

Approved by the Board and signed on its behalf by:


.....
E G Jordan - Director

27 SEPTEMBER 2019

Farfetch UK Limited
Report of the directors
for the year ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018. Further information on the Company can be found in the Strategic report and in note 1 to the financial statements, forming part of this report by cross reference.

Directors

The directors of the Company, who served throughout the financial period and up until the date of this report, are listed on page 2.

Changes in directorship during the year

There were no changes to the directors who held office during the period from 1 January 2018 to the date of this report.

Directors' interest in shares in the company

According to the register kept under section 808 of the Companies Act 2006, no director had any beneficial interest in the shares of the Company either at the beginning or end of the year. There were no changes in directors' interests during the year.

Employees

The Company continued its policy of providing regular information on Company performance, business activities and related matters to all employees. Smaller groups of employees, including senior employee representatives, attend regular business reviews, at which opportunity is given to question the company on business performance, plans and strategies.

Employees are encouraged to participate in the Group's performance via an employee share options given to senior employees.

The Company's policy with regard to disabled people is to provide equal employment opportunity by giving full and fair consideration to their applications for employment and the continued employment, wherever possible, of employees who became disabled and providing suitable opportunities for their training, career development and promotion.

Financial risk management

The Company manages its capital to ensure it will be able to continue as a going concern. All debt has been settled in 2017. At 31 December 2017 and 31 December 2018, the capital structure consisted solely of equity. The Company is not subject to any externally imposed capital requirements.

The Company is exposed to risks which arise from the probability of changes in the fair value of the future cash flows deriving from a financial instrument due to fluctuations in market prices. The Company has identified two principal risks being market risk (foreign exchange) and liquidity risk.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising inventory at the fixed foreign currency rate for the hedged purchases.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the consolidated annual financial statements of the ultimate parent undertaking, which are filed with the SEC on a form 20-F and can be obtained from farfetchinvestors.com.

Dividends

The board do not recommend a dividend (2017: None).

Farfetch UK Limited
Report of the directors (continued)
for the year ended 31 December 2018

Future outlook

Further details on the Company's future outlook can be found in the Strategic Report which forms part of this report by cross reference.

Existence of branches outside the UK

The Company has one branch, as defined by section 1046(3) of the Companies Act 2006, outside the UK in the Russian Federation.

Going concern

The directors are required to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate.

On 21 September 2018, the Company commenced trading its shares on the New York Stock Exchange raising \$759 million (net of fees). Taking this, combined with the board approved budgets in forming their view and the receipt of a letter of support from the Parent, the directors believe that the Company is well placed to manage its business risks successfully.

The Company has therefore continued to adopt the going concern basis of accounting in preparing the annual financial statements based upon its current forecasts and cash and financing facilities.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of the directors which were made during the year and remain in force at the date of this report.

Events after the reporting year

Events after the reporting year can be found in note 25 to the financial statements and forms part of this report by cross reference.

Statement as to disclosure of information

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

- So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

The financial statements on pages 10 to 35 were approved by the board of directors on 27 September 2019 and signed on its behalf by E G Jordan.

On behalf of the board:


.....

E G Jordan - Director

Farfetch UK Limited
Statement of the directors' responsibilities
for the year ended 31 December 2018

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Farfetch UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Farfetch UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Statutory financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Farfetch UK Limited
Independent auditors' report to the members of Farfetch UK Limited
statements (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Report of the directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.


Brian Henderson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

27 September 2019

Farfetch UK Limited
Statement of profit or loss
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Continuing operations			
Revenue	4	369,381	247,712
Cost of sales		(160,586)	(82,964)
Gross profit		208,795	164,748
Administrative expenses		(295,404)	(225,034)
Operating Loss		(86,609)	(60,286)
Comprising:			
Underlying operating loss		(68,635)	(49,498)
Exceptional items (included within administrative expenses)	6	-	(1,656)
Share based payment expense		(17,974)	(9,132)
		(86,609)	(60,286)
Finance income	7	12,676	1,883
Finance costs	7	(87)	(18,465)
Loss before tax	8	(74,020)	(76,868)
Tax on loss	9	(160)	1,096
Loss for the financial year		(74,180)	(75,772)

The notes on pages 14 to 35 form part of these financial statements

Farfetch UK Limited
Statement of comprehensive income
For the year ended 31 December 2018

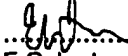
	2018 £'000	2017 £'000
Loss for the year	(74,180)	(75,772)
Other comprehensive income		
Other comprehensive income may be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign branch	1,248	303
Other comprehensive income for the year, net of tax	1,248	303
Total comprehensive expense for the year, net of tax	(72,932)	(75,469)

The notes on pages 14 to 35 form part of these financial statements

Farfetch UK Limited
(Registered number: 06400760)
Statement of financial position
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Intangible assets	10	55,549	28,853
Property, plant and equipment	11	5,746	5,278
Investments	12	39,845	39,593
Trade and other receivables	13	28,947	101,120
Total non-current assets		130,087	174,844
Current assets			
Inventories	14	996	227
Trade and other receivables	13	77,395	18,041
Cash and cash equivalents	15	797,520	266,887
Total current assets		875,911	285,155
Total Assets		1,005,998	459,999
Equity and liabilities			
Equity			
Share capital and share premium	16	410,603	-
Foreign exchange reserve	17	1,036	(212)
Other reserves	17	56,708	40,377
Accumulated losses	17	(240,994)	(166,815)
Total equity		227,353	(126,650)
Non-current liabilities			
Trade and other payables	18	233,138	492,202
Provisions	19	2,929	2,851
Total non-current liabilities		236,067	495,053
Current liabilities			
Trade and other payables	18	542,578	91,596
Total current liabilities		542,578	91,596
Total liabilities		778,645	586,649
Total equity and liabilities		1,005,998	459,999

The financial statements on pages 10 to 35 were approved by the Board of directors on 27 September 2019 and were signed on its behalf by:

.....

E G Jordan - Director

The notes on pages 14 to 35 form part of these financial statements

Farfetch UK Limited
Statement of changes in equity
For the year ended 31 December 2018

	Share capital and share premium £'000	Foreign exchange reserve £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
As at 1 January 2017	-	(515)	20,778	(91,043)	(70,780)
Changes in equity					
Total comprehensive expense	-	303	-	(75,772)	(75,469)
Share based payment charge	-	-	8,141	-	8,141
Capital contribution from parent	-	-	11,458	-	11,458
As at 31 December 2017	-	(212)	40,377	(166,815)	(126,650)
Changes in equity					
Issue of share capital	410,603	-	-	-	410,603
Total comprehensive expense	-	1,248	-	(74,180)	(72,932)
Share based payment charge	-	-	16,331	-	16,331
As at 31 December 2018	410,603	1,036	56,708	(240,995)	227,352

The notes on pages 14 to 35 form part of these financial statements

Farfetch UK Limited
Notes to the financial statements
For the year ended 31 December 2018

1. Company information

Farfetch UK Limited is a private company incorporated in the United Kingdom (England & Wales) under the Companies Act 2006 limited by shares. The Company's registered office is The Bower, 211 Old Street, London, England, EC1V 9NR. The registration number of the Company is 06400760. The principal activity of the Company is that of marketing and providing editorial and merchant facilities. The Board of directors have authorised the issue of these financial statements on the date of the statement as set out in page 12. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of Farfetch UK Limited 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, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

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

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- 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 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - (iii) 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);
 - 38B–D (additional comparative information);
 - 111 (cash flow statement information); and
 - 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 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.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

The financial statements are presented in British pound sterling and all values are rounded to the nearest pound, except where otherwise indicated.

The financial statements provide comparative information in respect of the previous period.

The Company is itself a subsidiary company which is consolidated into its parent's group financial statements. Further detail can be found in note 20. As such, the Company is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking.

2.2 Going concern

The directors considered the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate.

On September 21, 2018, the Company commenced trading its shares on the New York Stock Exchange raising \$759 million (net of fees). Taking this, combined with the board approved budgets in forming their view and the receipt of a letter of support from the Parent, the directors believe that the Company is well placed to manage its business risks successfully.

The Company has therefore continued to adopt the going concern basis of accounting in preparing the annual financial statements based upon its current forecasts and cash and financing facilities.

2.3 Summary of significant accounting policies

a) Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

b) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

c) Revenue recognition

Revenue is recognised in accordance with the five-step model under IFRS 15, which was early adopted by the Company on 1 January 2017:

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

Revenue is recorded in accordance with the five-step model under IFRS 15:

1. identifying the contracts with customers;
2. identifying the separate performance obligations;
3. determining the transaction price;
4. allocating the transaction price to the separate performance obligations; and
5. recognising revenue when each performance obligation is satisfied.

Retailing of goods

Revenue is recognised when the performance obligation is satisfied which is when the goods are received by the customer. Included within sales of goods is a provision for expected returns, discounts and rebates. Where these are not known, the Company uses historical data and patterns to calculate an estimate.

Rendering of services

The Company provides multiple services to brands and boutiques, and end consumers. The Company primarily acts as a commercial intermediary between sellers and end customers and earns a commission for this service. The Company acts as an agent as part of this arrangement and revenue is recognised on a net basis. The Company also charges fees to sellers for activities related to providing this service, such as packaging, credit card processing, settlement of duties, and other transaction processing activities. These activities are not considered separate promises to the customer, and the related fees are therefore recognised concurrently with commissions at the time the performance obligation to facilitate the transaction between the seller and end consumer is satisfied, which is when the goods are dispatched to the end consumer by the seller. A provision is made for commissions that would be refunded if the end consumer returns the goods, and the Company uses historical data and patterns to estimate its return provision.

The Company also provides delivery services to end consumers for goods purchased on its platform. For these services, the Company acts as the principal and recognises as revenue amounts charged to end consumers net of any promotional incentives and discounts. Revenue for these services is recognised on delivery of goods to the end consumer, which represents the point in time at which the Company's performance obligation is satisfied. No provision for returns is made as delivery revenue is not subject to refund.

Promotional incentives, which include basket promo-code discounts, may periodically be offered to end consumers. These are treated as a deduction to revenue. Cash is collected by the Company from the end consumer using payment service providers. Within two months of the transactions, this is remitted to the relevant seller (net of commission and recoveries).

d) Current and deferred tax

Current tax is the expected tax payable based on the taxable profit for the period, and the tax laws that have been enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Current and deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates and in accordance with laws that are expected to apply in the period/jurisdiction when/where the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities and where there is an intention to settle the balances on a net basis.

e) Foreign currencies

The Company's financial statements are presented in British pound sterling, which is also the functional currency. The Company also has a Russian branch whose functional currency is Russian Ruble. The assets and liabilities of branch operations are translated into British pound sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates. The exchange differences arising on translation are recognised in other comprehensive income.

f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

g) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. All repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Items of property, plant and equipment are depreciated in the statement of profit and loss on a straight-line basis over their useful life. The financial and technical useful lives of these items are assessed as follows:

Leasehold improvements	Over the life of the lease
Fixtures and fittings	Three to ten years
Computer equipment	Three to ten years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Property, plant and equipment are also assessed for indicators of impairment. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss if its carrying amount is greater than its recoverable amount. Further detail can be found in section "I" below.

h) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

i) Intangible assets

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss, within administrative expenses.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expenses. During the period of development, the asset is tested for impairment annually.

Subsequent costs

Subsequent costs are only capitalised when there is an increase in the anticipated future economic benefit attributable to the assets in question. All other subsequent costs are entered in the statement of profit and loss for the year in which they are incurred.

Amortisation

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful life of the intangible assets, from the time that the assets are available for use. The financial and technical useful lives of these items are assessed as follows:

Development costs	Three years
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j) Inventories

Inventories are carried at the lower of cost and the net realisable value based on market performance, including the relative ancillary selling costs. The cost of inventories, calculated according to the weighted average cost method for each category of goods, includes purchase costs and costs incurred to bring the inventories to their present location and condition. In order to represent the value of inventories appropriately in the statement of financial position, and to take into account impairment losses due to obsolete materials and slow inventory movement, obsolescence provisions have been directly deducted from the carrying amount of the inventories.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

k) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

The Company's financial assets comprise cash and cash equivalents, receivables and derivative financial instruments. Derivative financial instruments are comprised of forward exchange contracts, which are measured at fair value through profit or loss, unless they are formally designated and measured as cash flow hedges.

Trade receivables are generally accounted for at amortized cost. The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost.

Financial assets through profit or loss are measured initially at fair value with transaction costs taken directly to the consolidated statement of operations. Subsequently, the financial assets are remeasured, and gains and losses are recognised in the consolidated statement of operations.

Financial liabilities

The Company's financial liabilities comprise trade and other payables, interest bearing loans and borrowings, contingent consideration and foreign exchange contracts.

Trade and other payables are held at amortised cost.

All interest bearing loans and borrowings are initially recognised at fair value net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Contingent consideration and foreign exchange contracts are measured initially at fair value through profit or loss with transaction costs taken directly to the consolidated statement of operations. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the consolidated statement of operations.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Where the derivative is not designated as a hedge, subsequent changes in the fair value are recognised in profit or loss. Such derivatives are classified as a current asset or liability.

The Company designates certain derivatives as cash flow hedges to hedge particular risks associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions. Currently the Company has only designated cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

When a hedging instrument matures, any gains or losses held in the cash flow hedge reserve are recycled to profit or loss.

If the a hedge no longer meets the criteria for hedge accounting, or the forecast transaction is no longer likely to occur, the cumulative gain or loss reported in equity is immediately reclassified to profit or loss.

l) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists the Company's estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's recoverable amount.

m) Provisions

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

n) Share based payments

Employees (including senior executives) of the Company receive remuneration in the form of share based payments, whereby employees render services as consideration. The consideration is either equity or cash settled depending on the scheme. Share options granted are over the parent's equity and are accounted for in the Company's individual financial statements as an expense in profit or loss and a capital contribution from the Company's parent.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. The transactions are recognised at group level and are charged to the Company based the allocation of employees entity of employment. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

Cash-settled transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

o) Exceptional items

Exceptional items are non-recurring items which are outside the normal scope of the Company's ordinary activities such as costs arising from a fundamental restructuring of the Company's operations, or are considered to be one-off in nature. Such items are disclosed separately within the statement of profit and loss.

2.4 Changes in accounting policies and disclosures

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018 which are listed below. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 for the first time in the current year. The application of the standard has had no material impact on the Company's financial statements. Due to the nature of the Company's financial assets and liabilities there has been no material changes to the Company's accounting policies as a result of adopting IFRS 9.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

The Company has adopted the amendments to IFRS 2 for the first time in the current year. The amendments address the measurement of cash-settled share-based payments, the classification of share-based payments settled net of tax withholdings, and the accounting for a modification of a share-based payment from cash-settled to equity-settled. The application of these amendments has had no impact on the Company's financial statements.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16

Leases (effective January 1, 2019)

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Company has set up a project team which has reviewed all of the Company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases. The Company does not act as a lessor and therefore no impact is expected in relation to lessor accounting.

As at the reporting date, the Company has non-cancellable operating lease commitments of £31,919,000, see note 22. The Company expects to recognise right-of-use assets of approximately £25,031,000 on 1 January 2019, and lease liabilities of £27,254,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

2. Significant accounting policies (continued)

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the modified retrospective transition approach and will not restate comparative amounts for the year prior to first-time adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

3. Critical accounting estimates and judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Below is a summary of the critical measurement processes and the key assumptions used by management in applying accounting policies with regard to the future, and which could have significant effects on carrying amounts stated in the financial statements, or for which there is a risk that significant adjustments may be made to the carrying amount of assets and liabilities in the year following that under review.

Critical judgements in applying group accounting policies

Intangible assets — development costs

a) Cost capitalisation

Amounts capitalised include the total cost of any external products or services and internal labour costs directly attributable to development of the asset. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved.

b) Useful life

The useful life is determined by management at the time the asset is brought into its intended use and is regularly reviewed for appropriateness. The useful life represents management's view of the expected period over which the Company will receive benefits.

Recognition of a deferred tax asset

The Company has accumulated significant unutilised trading tax losses (note 9). A deferred tax asset in respect of these losses can only be recognised when it is more than probable that future taxable profits will be available to utilise these against. Whilst the Company expects to become profitable in the future, a deferred tax asset has not been recognised because there is uncertainty on the timing of future profitability in the near future. The Company periodically reviews this assessment.

Key sources of estimation uncertainty

Share based payments

Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The share based payment charge is calculated at the group level and charged down to the Company based on each employees company of employment.

Exceptional items

The Company applies judgment in identifying the significant non-recurring items of expense that are recognised as exceptional to help provide an indication of the Company's underlying performance.

Inventory provisions

Inventory is carried at the lower of cost and net realisable value which requires an estimation of the products' future selling prices. Judgment is required in determining any write-down for slow-moving or obsolete inventory.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

4. Revenue

Total revenue can be analysed by type of good or service as follows:

	2018 £'000	2017 £'000
Sale of goods	262	467
Platform services revenue	303,002	171,818
Platform fulfilment revenue	66,117	75,427
	369,381	247,712

The Company has a single performance obligation in respect of sale of goods. Where finished goods have been ordered but not yet delivered to the consumer at the end of the reporting period, revenue is deferred until delivery, which is when the performance obligation is satisfied. No revenue has been deferred in relation to the sale of goods in 2017 or 2018, nor has any previously deferred revenue been recognised. Within platform services, the Company provides multiple services to sellers, brands and boutiques, and end customers. The Company acts as a commercial intermediary between sellers and final customers and earns a commission for this service. Commission revenue is recognised net on the statement of profit and loss as the Company acts as an agent in these arrangements. Revenue in relation to obligations within Platform Services Revenue which have not been satisfied at the end of the reporting period is £1,172,000 (2017: £719,000) and is expected to be recognised in under 90 days from the end of the reporting period. In 2018 £719,000 (2017: £244,000) of revenue deferred in 2017 was recognised as revenue.

Platform services revenue also includes fees charged to sellers for other activities, such as, packaging, credit card processing, and other transaction processing activities.

At checkout, end consumers are charged for delivery, if applicable, in addition to the price of goods in their basket. The Company is responsible for collection of cash from end consumers with payment typically taken in advance of completing the performance obligations. This is then remitted net to the sellers within two months of the end of each reporting period.

The Company also provides delivery services for products sold on the platform, for which revenues are recognised when the products are delivered to the end consumers. Revenues for delivery services are stated net of promotional incentives and discounts. Platform fulfilment revenue also includes fees charged to sellers for the settlement of duties which are recognised concurrently with commissions.

As discussed above, the promise with respect to delivery services is satisfied only when the goods are delivered. Within Platform Fulfilment Revenue, where the delivery performance obligation has not been satisfied at the end of the reporting period, revenue of £349,000 (2017: £302,000) has been deferred and is expected to be recognised in under 90 days from the end of the reporting period. The transaction price for this performance obligation is the delivery costs charged to the customer as described above. In 2018 £302,000 (2017: £320,000) of revenue deferred in 2017 was recognised as revenue.

There were no receivables from contracts with customers (2017: none).

Further detail can be found in note 2.3. c) to the financial statements.

Total revenue can be analysed by geographical location as follows:

	2018 £'000	2017 £'000
Europe, Middle East and Africa	147,573	93,746
Americas	107,347	65,101
Asia Pacific	114,461	88,865
	369,381	247,712

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

5. Employees and directors

	2018 £'000	2017 £'000
Wages and salaries	32,073	22,732
Social security costs	4,635	2,567
Other pension costs	745	319
Share based payments- equity settled	12,430	8,141
Share based payments- cash settled	549	205
Share based payments- employment related taxes	4,994	786
	55,426	34,750

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

	2018	2017
Technology	97	39
Administration	109	95
Commercial	384	233
	590	367

Directors

The directors' emoluments were as follows:

	2018 £'000	2017 £'000
Aggregate amounts	950	953
Company contributions to money purchase schemes	13	7

Highest paid director

The highest paid director's emoluments were as follows:

	2018 £'000	2017 £'000
	362	320

Three directors (2017: three) are part of a money purchase pension scheme and also have awards receivable in the form of shares in the parent company under a long-term incentive scheme. Two directors (2017: none) exercised share options during the year.

6. Exceptional items (Included within administrative expenses)

The Company incurred the following costs during the years presented which are considered to be exceptional.

	2018 £'000	2017 £'000
Replatforming costs	-	237
Integration and acquisitions	-	1,419
Total	-	1,656

Replatforming costs are associated with a new information system capability and office infrastructure to support the growth strategy.

Acquisitions and integration costs relate to acquisitions. There were no acquisitions in the year 2018.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

7. Finance income and costs

	2018 £'000	2017 £'000
Deposit account interest	4,950	1,559
Interest income - money market funds	3,004	-
Other interest income	55	324
Exchange gains	4,667	-
Finance income	12,676	1,883
Exchange losses	-	(17,287)
Other interest expense	(87)	-
Bank loan interest	-	(1,178)
Finance costs	(87)	(18,465)

8. Loss before tax

	2018 £'000	2017 £'000
Operating leases	4,645	2,217
Research and development costs expensed	9,340	3,941
Depreciation - owned assets	922	647
Amortisation - intangible assets	10,933	5,035
Auditors' remuneration - Audit fees	185	568
Auditors' remuneration - Tax services	173	98
Auditors' remuneration - Other services	665	99

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

9. Tax on Loss

Income tax credit

	2018 £'000	2017 £'000
Current tax:		
Corporation Tax expense/ (credit)	160	(528)
Total current tax expense/ (credit)	160	(528)
Total deferred tax credit	-	(568)
Income tax expense/ (credit)	160	(1,096)

Reconciliation of income tax expense/ (credit)

	2018 £'000	2017 £'000
Loss before tax	(74,020)	(76,868)
Tax at the UK tax rate of 19.00% (2017: 19.25%)	(14,064)	(14,797)
Tax effects of:		
Sundry permanent differences	1,728	1,358
Sundry temporary differences	-	(568)
Entertaining	20	19
Losses surrendered to group companies	1,258	(530)
Other taxes paid overseas or adjustments	160	-
Unrecognised deferred tax asset arising from timing differences relating to:		
Share based payment	(5,941)	1,569
Fixed assets	175	217
Losses carried forward	16,824	11,636
Tax credit	160	(1,096)

The Finance Act 2015 reduced the main rate of UK Corporation Tax from 20% to 19% for the 2017 tax year, with the rate set at 19% for the 2018 and 2019 tax years. The Finance Act 2016 has set the CT rate for the 2020 tax year as 17%. Consequently the Company has used a tax rate of 19% for the 2018 financial year.

Trading losses as at 31 December 2018 of approximately £209m (2017: £124m) are available to be carried forward indefinitely. UK trading losses are available to be carried forward indefinitely. Legislation has been introduced with effect from 6 April 2017 whereby the utilisation of UK trading losses carried forward will be restricted to 50% on UK Group profits exceeding £5.0m. A deferred tax asset is only recognised where it can be shown that it is more than probable that future taxable profits will be available against which the Company can utilise the asset. Subject to specific legislation regarding changes in ownership and the nature of trade, trading losses are available to be either carried forward indefinitely or for a significant time period.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

10. Intangible Assets

	Goodwill	Customer relationships	Trademarks and domain names	Development costs	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2018	5,573	931	2,408	28,009	36,921
Additions	-	-	-	37,629	37,629
At 31 December 2018	5,573	931	2,408	65,638	74,550
Accumulated Amortisation					
At 1 January 2018	-	(146)	(106)	(7,816)	(8,068)
Amortisation for year	-	(333)	(240)	(10,360)	(10,933)
At 31 December 2018	-	(479)	(346)	(18,176)	(19,001)
Net book value					
At 31 December 2018	5,573	452	2,062	47,462	55,549
At 31 December 2017	5,573	785	2,302	20,193	28,853

Development costs relate to capitalised development expenses relating to development of the Marketplace.

Included within Development costs is £161,000 of assets that are under the course of construction (2017: £493,000). Amortisation of this will commence once they have been brought into use.

11. Property, plant and equipment

	Leasehold improvements	Fixtures and fittings	Computer equipment	Assets in the course of construction	Totals
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2018	5,369	586	512	-	6,467
Additions	222	148	140	896	1,406
Transfer	-	31	(31)	-	-
Foreign exchange movements	(13)	(24)	(4)	-	(41)
At 31 December 2018	5,578	741	617	896	7,832
Depreciation					
At 1 January 2018	(792)	(122)	(275)	-	(1,189)
Charge for year	(592)	(182)	(148)	-	(922)
Transfer	-	3	(3)	-	-
Foreign exchange movements	17	-	8	-	25
At 31 December 2018	(1,367)	(301)	(418)	-	(2,086)
Net book value					
At 31 December 2018	4,211	440	199	896	5,746
At 31 December 2017	4,577	464	237	-	5,278

Included within leasehold improvements is £nil of assets that are under the course of construction (2017: £nil). Depreciation of this will commence once they have been brought into use.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

12. Investments

	Equity investments £'000	Shares in group undertakings £'000	Total £'000
Cost			
At 1 January 2018	206	39,387	39,593
Additions	241	11	252
Net book value at 31 December 2018	<u>447</u>	<u>39,398</u>	<u>39,845</u>
Cost			
At 1 January 2017	-	34,263	34,263
Additions	206	5,124	5,330
Net book value at 31 December 2017	<u>206</u>	<u>39,387</u>	<u>39,593</u>

Direct Holdings

Number	Name	Country of incorporation	% Equity interest		Principal activities
			2018	2017	
1	Farfetch Portugal Unipessoal Lda	Portugal	100	100	Back office support
2	Farfetch HK Holdings Limited	Hong Kong	100	100	E-commerce and marketing
3	Browns (South Molton Street) Limited	England & Wales	100	100	Retail
4	Farfetch Japan Co. Limited	Japan	100	100	E-commerce and marketing
5	Farfetch Store of the Future Limited	England & Wales	100	100	E-commerce and marketing
6	Farfetch Finance Limited	England & Wales	25	25	Finance
7	Fashion Concierge UK Limited	England & Wales	100	100	E-commerce services
8	Farfetch Black & White Limited	England & Wales	100	100	E-commerce services
9	Farfetch International Limited	Isle of Man	100	100	Holding company
10	Farfetch Mexico, S.A. de C.V.	Mexico	99	99	Back office support
11	Farfetch India Private Limited	India	100	-	Back office support
12	Farfetch Italia S.R.L.	Italy	100	-	Back office support
13	Farfetch Australia Pty Ltd	Australia	100	-	Back office support

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

12. Investments (continued)

Indirect Holdings

Number	Name	Country of incorporation	% Equity Interest		Principal activities
			2018	2017	
14	LASO Co Limited (subsidiary of 4)	Japan	100	100	E-commerce and marketing
15	Farfetch China (HK Holdings) Limited (subsidiary of 2)	Hong Kong	100	100	Holding company
16	Farfetch HK Production Limited (subsidiary of 2)	Hong Kong	100	100	E-commerce and marketing
17	Farfetch (Shanghai) E-Commerce Co., Limited (subsidiary of 15)	China	100	100	Marketing
18	F&C Fashion Concierge, LDA (subsidiary of 7)	Portugal	100	100	E-commerce services
19	Farfetch Middle East FZE (subsidiary of 9)	UAE	100	-	Back office support

Farfetch India Private Limited was incorporated on 10 April, 2018. Farfetch UK Limited owns 99.99% of the entity and Farfetch.com Limited owns 0.01% of the equity.

Farfetch Italia S.R.L. was incorporated on 17 October, 2018. Farfetch UK Limited owns 100% of the entity.

Farfetch Australia Pty Ltd was incorporated on 26 October, 2018. Farfetch UK Limited owns 100% of the entity.

Farfetch Middle East FZE was incorporated on 11 June, 2018. Farfetch International Limited owns 100% of the entity.

Farfetch UK Limited purchased 100% of the share capital of Fashion Concierge UK Limited on 31 October, 2017 for a consideration of £1,645,000. Fashion Concierge UK Limited owns 100% of the share capital of F&C Fashion Concierge, LDA.

During the year ended 31 December 2017, Farfetch UK Limited invested £3,522,000 in its wholly owned subsidiary Farfetch Portugal Unipessoal Lda.

Farfetch Black & White Limited was incorporated on 3 October, 2017. Farfetch UK Limited owns 100% of the entity.

Farfetch International Limited was incorporated on 28 November, 2017. Farfetch UK Limited owns 100% of the entity.

Farfetch México, S.A de C.V was incorporated on 29 November, 2017. Farfetch UK Limited owns 99% of the entity.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

12. Investments (continued)

Registered addresses of subsidiary undertakings by company number:

Company number	Registered address
1, 18	Rua da Lionesa, nr. 446, Edificio G12 4465-671 Leça do Balio, Portugal
2, 15, 16	402 Jardine House, 1 Connaught Place, Central, Hong Kong
3, 5, 7, 8	The Bower, 211 Old Street, London EC1V 9NR, United Kingdom
4	404 Barbizon104, 5-4-27 Minami-aoyama, Minato-ku, Tokyo, Japan
6	Monmouth House, Westbourne Grove, London, W2 4UL, United Kingdom
9	Grosvenor House, 66-67 Athol Street, Douglas, IM1 1JE, Isle Of Man Avenida Insurgentes Sur No. 1605 Piso 15, Módulo 3, Col. San José Insurgentes, Del. Benito Juárez, C.P. 03900
10	Juárez, C.P. 03900
11	333, 3rd Floor, Devika Tower, 6, Nehru Place New Delhi South Delhi DL 110019, India
12	Milano (MI) Via Tortona, 25 CAP 20144, Italy
13	Suite 12, Level 12 37 Bligh Street Sydney NSW 2000, Australia
14	6th Floor, Akasaka FS Building, 7-10-7 Akasaka Minato-ku, Tokyo, Japan
17	Room 302-09, 3rd floor, No 211, North Fute Road, Shanghai, China
19	Plot No. B34BS22, PO Box 18060, Jebel Ali Free Zone, Dubai, UAE

13. Trade and other receivables

	2018 £'000	2017 £'000
Non-current		
Other receivables	4,470	3,672
Amounts owed by group undertakings	24,477	97,448
	<u>28,947</u>	<u>101,120</u>
Current		
Other receivables	70,477	14,498
Prepayments and accrued income	3,290	1,871
VAT	3,425	1,536
Derivative financial instruments	201	136
Amounts owed by group undertakings	2	-
	<u>77,395</u>	<u>18,041</u>

Amount owed by Company undertakings are repayable on demand and non-interest bearing.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The directors consider the maximum credit risk at the balance sheet date is equivalent to the carrying value of trade and other receivables.

14. Inventories

	2018 £'000	2017 £'000
Finished goods	996	227

The total cost of inventory recognised as an expense was £1,342,000 (2017: £516,000). The total provision against inventory in order to write down the balance to the net recoverable amount was £nil (2017: £nil).

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

15. Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash and cash equivalents	797,520	266,887

16. Share capital

Ordinary shares issued and fully paid

Class	Par value £	2018 £	2017 £
1001 ordinary shares (2017: 1 ordinary share)	1	1001	1

17. Reserves

	Foreign exchange reserve £'000	Warrant reserve £'000	Share based payments £'000	Accumulated losses £'000
At 1 January 2018	(212)	510	39,867	(166,815)
Gain/ (loss) for the year	1,248	-	-	(74,180)
Share-based payments - equity settled	-	-	16,331	-
At 31 December 2018	1,036	510	56,198	(240,995)

	Foreign exchange reserve £'000	Warrant reserve £'000	Share based payments £'000	Accumulated losses £'000
At 1 January 2017	(515)	510	20,268	(91,043)
Gain/ (loss) for the year	303	-	-	(75,772)
Share-based payments - equity settled	-	-	8,141	-
Capital contribution from parent	-	-	11,458	-
At 31 December 2017	(212)	510	39,867	(166,815)

18. Trade and other payables

	2018 £'000	2017 £'000
Non-current		
Amounts owed to group undertakings	233,138	492,202
	233,138	492,202
Current		
Trade payables	64,272	59,452
Other payables	436,687	33
Social security and other taxes	2,198	748
Accruals and deferred income	39,295	31,312
Income tax payable	126	51
Trade and other payables	542,578	91,596

The amounts owned to Company undertakings is an intercompany loan with an interest rate of 4% above London interbank offered rates (LIBOR).

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

19. Provisions

	Dilapidations provision		Share based payment employment taxes provision		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 January	540	621	2,311	1,525	2,851	2,146
Additional provision in the year	78	-	-	786	78	786
Foreign exchange	-	(81)	-	-	-	(81)
At 31 December	618	540	2,311	2,311	2,929	2,851

The dilapidations provision reflects the best estimate of the cost to restore leasehold property in line with the Company's contractual obligations. Based on a detailed analysis the Company has estimated a liability of £618,000 (2017: £540,000). In estimating the liability the Company has made assumptions which are based on past experience. Assuming the leases are not extended, the Company expects the economic outflows to match the contractual end date of Company leases. The Company leases have an average length of eight years with an average of seven years remaining.

The share based payments employment taxes provision reflects the best estimate of the cost to settle employment related taxes on the Group share based payments based on the most recent share price and the number of share options expected to vest where the Company has an obligation to settle employment related taxes. The Company has estimated a liability of £2,311,000 (2017: 2,311,000).

20. Related party disclosures

The Company has taken advantage of the exemption given by IAS 24 not to disclose transactions between two or more members of the Group as the Company is under control of Farfetch Limited which is the ultimate parent to which it is party to the transactions. Further details are given in note 21.

Platforme International Limited is a related party of J M F Neves. The Company made sales of £417,000 (2017: £192,000) to Platforme International Limited. The Company had a £10,000 receivable in 2018 (2017: £52,000 receivable).

The acquisition of the business of Style.com was a related party transaction because the former owners of Style.com Conde Nast, are also a shareholder of the Group. Jonathan Newhouse, the current chairman and chief executive of Conde Nast International is also a director of Farfetch.com Limited.

21. Ultimate controlling party

The immediate parent undertaking of the Company is Farfetch.com Limited, a company registered in Isle of Man and owned by Farfetch Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Farfetch Limited. Farfetch Limited prepares consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. These are filed with the SEC on a form 20-F and can be obtained from farfetchinvestors.com.

The Company's ultimate controlling party is J M F Neves by virtue of holding the majority of voting rights in Farfetch Limited.

The Company has taken advantage of the exemption available under section 401 of the Companies Act 2006 not to prepare group financial statements on the basis that the Company is included in non-EEA financial statements of a larger group.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

22. Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at the year-end are as follows:

	2018 £'000	2017 £'000
No later than one year	3,946	2,452
Later than one year not later than five years	14,393	8,210
Later than five years	13,580	9,206
	31,919	19,868

23. Financial instruments

Categories of financial instruments

Financial assets

	Amortised cost 2018 £'000	Amortised cost 2017 £'000
Current		
Other receivables	70,477	117,154
Cash and cash equivalents	797,520	266,887
Non-current		
Other receivables	4,470	
Total	872,467	384,041
	2018 £'000	2017 £'000
Foreign currency forwards - held at FVTPL	201	136
Derivative financial asset	201	136

Financial liabilities

	Amortised cost 2018 £'000	Amortised cost 2017 £'000
Current		
Trade payables	64,272	59,452
Other payables	436,687	33
Non-current		
Other payables	233,138	492,202
Total	734,097	551,687

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For the year ended 31 December 2018

24. Share options- equity and cash settled

The Company continues to participate in its parent's equity settled share option plans (section a). The parent has also introduced a cash settled share option plan in 2018 (section b) which the Company also participates in.

a) Equity settled

Certain employees of the Company participate in the parent company's equity settled share based payment scheme. This is accounted for as equity-settled in the Company's individual financial statements. The scheme/ plans are administered by the parent company which grants the rights to the Company's employees as part of the scheme. The management of the Company do not have the power to grant rights under the scheme autonomously without approval by the parent company.

The share based payments as at 31 December 2018 are described below:

Type of arrangement	2015 LTIP approved share option plan	2018 LTIP approved share option plan
Date of first grant	9 September 2015	19 September 2018
Number granted	29,491,145	2,109,015
Contractual life	10 years	10 years
Vesting conditions	Varying tranches of options vesting upon defined years of service	Varying tranches of options vesting upon defined years of service

Movements on the share options were as follows:

	2018 units ('000)	2017 units ('000)
Options at beginning of year	18,593	11,082
Options granted	13,969	7,987
Options exercised	(760)	(163)
Options forfeited	(1,391)	(313)
	30,411	18,593
Options exercisable at year end	12,276	8,600

Farfetch Limited, the Company's ultimate parent, listed on the New York Stock Exchange via an initial public offering ("IPO") in September 2018. As part of the listing process, Farfetch Group was restructured with Farfetch Limited, a newly incorporated legal entity becoming the ultimate parent of the Farfetch Group. Prior to IPO, Farfetch.com Limited was the previous ultimate parent of Farfetch Group. Shareholders and option holders of Farfetch.com limited exchanged their shares and share options in Farfetch.com Limited for Farfetch Limited shares immediately prior to the IPO. These were exchanged on a one for five basis. For share option holders, the impact of this one for five share split is also reflected in the exercise prices which have been adjusted and converted into U.S dollars using the spot rate at the time of the IPO. The Company has therefore represented the share options disclosures reflecting this.

b) Cash settled

Certain employees of the Company participate in the parent's cash settled share based payment scheme where they are granted share appreciation rights ("SAR"s) that require the Company to pay the intrinsic value of the SAR to the employee at the date of exercise. The Company has recorded liabilities of £1,315,000 in 2018 and (£255,000 in 2017).

The fair value of the SARs is determined by using the Black Scholes model using the same assumptions noted in the above table for the Company's equity-settled share based payments. The Company recognised a fair value gain of £220,407 in 2018 (2017: revaluation gain of £334,000). The total intrinsic value at 31 December 2018 was £1,793,000 (2017: £492,000).

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For the year ended 31 December 2018

25. Events after the reporting year

In January 2019, the functional currency of Farfetch UK Limited changed from pound sterling to U.S dollar. This was a result of a gradual change in the primary economic environment in which Farfetch UK Limited operates driven by the growth of consumers where the Company receives U.S. Dollars in settlement. This is combined with an increase in costs influenced by movements in the U.S dollar. The Group's corporate treasury function continually monitors the Group's exposure to foreign currencies movements. Following the gradual change described above, the Group determined that, whilst Farfetch UK Limited is exposed to movements in several key currencies including U.S dollars, euros and pound sterling, on reviewing Farfetch UK Limited's expected receipts and expenses, U.S dollars had become the dominant currency from January 2019. This has hence triggered a change in functional currency.