

LivingSocial Limited

Registered Number: 07227708

Annual Report and Financial Statements for the year ended 31 December 2011

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Company Information

Directors

Peter Briffett (appointed 2 August 2011)

John Bax (appointed 2 August 2011)

Eric Eichmann (appointed 9 November 2011)

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

The Atrium

1 Harefield Road

Uxbridge

UB8 1EX

Bankers

NatWest

30 Market Place

Newbury

Berkshire

RG14 5AJ

Registered Office

25 Wellington Street

London

WC2E 7DA

Directors' report for LivingSocial Limited

Registered Company Number. 07227708

The directors present their report and audited financial statements for the year ended 31 December 2011. The comparative period was the Company's first trading period from incorporation on 19 April 2010 to 31 December 2010.

Principal activities

The LivingSocial worldwide group is a leader in the on-line "social commerce" industry with an existing subscriber-base of approximately 60 million in over 400 markets across 25 countries. The Company contracts with merchants to create offers marketed online to subscribers of the Company's service. These offers typically provide discounted products and services from featured merchants in selected markets.

LivingSocial Limited was incorporated in the United Kingdom on 19 April 2010 and ran its first "Daily Deal" in the UK on 29 June 2010. Turnover has increased rapidly since inception. As at 31 December 2011 the Company employed over 250 staff in the UK. In exchange for significant discounts from merchants, LivingSocial drives thousands of new customers to local businesses. For consumers, LivingSocial provides great experiences to enjoy in their city of choice from restaurants and spas to skydiving and boat cruises. The Company plans to continue its turnover growth by increasing its subscriber base through the continued offering of attractive deals.

Results and Dividends

The Company's loss for the year ended 31 December 2011 was £18,223,122. The Company is funded by the provision of loans from other group members. No dividend was paid during the year (2010: £nil for the period).

Directors

The directors who held office during the year are given below:

Tim O'Shaughnessy (appointed 19 April 2010 and resigned 8 November 2011)
James Bramson (appointed 19 April 2010 and resigned 1 August 2011)
Jake Maas (appointed 19 April 2010 and resigned 1 August 2011)
Peter Briffett (appointed 2 August 2011)
John Bax (appointed 2 August 2011)
Eric Eichmann (appointed 9 November 2011)

Going Concern

The financial statements have been prepared on the going concern basis as the Company's parent undertaking has undertaken to provide the necessary support to enable the Company to meet its liabilities as they fall due.

As a result of these considerations, the directors are confident that the Company will be able to meet its liabilities as they fall due for the foreseeable future and for at least 12 months from the signature of the Balance Sheet. Accordingly, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

Directors' report for LivingSocial Limited (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditors

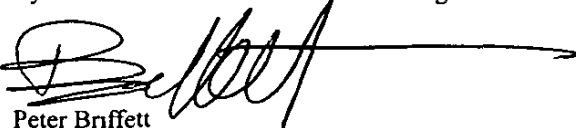
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant information needed by the Company's auditor and to establish that the auditor is aware of that information.

Independent Auditors

As part of the board's commitment to good governance, the directors have undertaken a review of the audit arrangements of the group. This included, amongst other things, a reflection on the duration of service of the incumbent auditors. Following this process, a recommendation was made to the board to reappoint PricewaterhouseCoopers LLP as auditors.

The directors have prepared their report in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

By order of the board of directors and signed on its behalf by,



Peter Briffett

Director

28/08/2012

Independent Auditor's Report to the Members of LivingSocial Limited

We have audited the financial statements of LivingSocial Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

Respective responsibilities of directors and auditors

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

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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

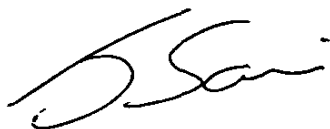
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report



Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
West London

28 August 2012

Profit and loss account

for the year ended 31 December 2011

		Year ended 31 December 2011	Period ended 31 December 2010
	Note	£	£
Turnover	1	7,855,266	508,779
Cost of sales		(1,546,886)	(100,991)
Gross profit		6,308,380	407,788
Administrative expenses		(24,488,565)	(3,204,548)
Operating Loss		(18,180,185)	(2,796,760)
Interest Income		355	-
Interest Expense	3	(43,292)	-
Loss on ordinary activities before taxation	2	(18,223,122)	(2,796,760)
Tax on profit on ordinary activities	15	-	-
Loss for the period	12	(18,223,122)	(2,796,760)

The results above are all for continuing operations

The Company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been presented

The notes on pages 8 to 15 form part of these financial statements

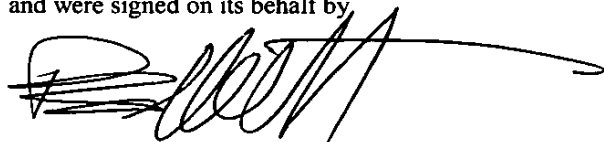
Balance sheet

as at 31 December 2011

	Note	2011 £	2010 £
Fixed assets			
Tangible assets	4	1,082,055	24,752
		<u>1,082,055</u>	<u>24,752</u>
Current assets			
Cash at bank	5	823,049	271,120
Inventory	6	6,490	-
Debtors	7	1,514,039	70,872
Current assets		<u>2,343,578</u>	<u>341,992</u>
Creditors – Amounts falling due within one year	8	(19,869,863)	(329,294)
Net current (liabilities) / assets		<u>(17,526,285)</u>	<u>12,698</u>
Total assets less current liabilities		<u>(16,444,230)</u>	<u>37,450</u>
Provisions	9	(1,800,661)	(59,219)
Net liabilities		<u>(18,244,891)</u>	<u>(21,769)</u>
Capital and reserves			
Share capital	10	10	10
Other reserves	12	2,774,981	2,774,981
Profit and loss account	12	(21,019,882)	(2,796,760)
Total shareholders' deficit	13	<u>(18,244,891)</u>	<u>(21,769)</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006

The financial statements were approved and authorised for issue by the board of directors on 28/08/2012 and were signed on its behalf by



Peter Briffett
Director

The notes on pages 8 to 15 form part of these financial statements

Notes to the financial statements

for the year ended 31 December 2011

1. Accounting policies

The principal accounting policies, which have been applied consistently throughout the period, are set out below

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and in accordance with the applicable Financial Reporting Standards for Smaller Entities (effective April 2008)

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent Company LivingSocial, Inc. The directors have received confirmation that LivingSocial, Inc. intends to support the Company for at least 12 months from the date of signature of the Balance Sheet

As a result of these considerations the directors are confident that the Company will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, the directors consider that it is appropriate to prepare the accounts on a going concern basis

The Company has incurred a loss for the year of £18,223,122

Turnover

The Company recognises turnover net of value added tax principally from "Daily Deals". Turnover is recognised on deals on the date the deal is purchased from the website. The Company evaluates the presentation of turnover on a gross versus net basis. The Company assesses whether it acts as a principal in the transaction or as an agent acting on behalf of others. Where the Company has the risks and rewards of a principal in the transaction, the transaction is recorded on a gross basis. If the Company does not act as a principal in the transaction, the transactions are recorded on a net basis.

The Company's Deals with the exception of "adventures" deals (see below) currently comprise the vast majority of the Company's turnover transactions. The Company's Deal merchants assume the majority of the contractual risks, which include providing the goods or service and the risk of unsold inventory. As such, all Deal transactions are recorded at the net amount, which is the amount charged to the purchaser less the amount to be paid to the merchant. The net amount recorded as turnover represents the Company's negotiated commission percentage with the merchants.

The Company acts as the principal in its "adventures" deals, pursuant to which its subscribers may purchase vacation or other adventure packages directly from the Company. Because the Company assumes the majority of the contractual risks, adventures transactions are recorded at the gross amount, which is the amount charged to the purchaser. Amounts paid to the underlying merchants are recorded as costs of turnover in the periods incurred.

The Company records a provision for estimated refunds based on historical refund patterns. Refunds are recorded as a reduction of turnover and are adjusted as appropriate as actual refund activity occurs.

All turnover arises in the United Kingdom

Fixed Assets

Tangible fixed assets are stated at original cost less accumulated depreciation. Depreciation is calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life at the following rates

- Computer hardware and office equipment – three years straight line
- Fixtures and Fittings – over the term of the lease
- Leasehold Improvements – over the term of the lease

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Cash flow

The Company has taken advantage of a small Company exemption from preparing a cash flow statement in accordance with Financial Reporting Standard 1.

Foreign exchange

Transactions denominated in currencies other than Sterling are translated into Sterling at the rates of exchange prevailing on the dates on which the transactions were made. Monetary assets and liabilities denominated in currencies other than Sterling are translated at the rates ruling on the balance sheet date. Differences arising from changes in exchange rates are dealt with through the profit and loss account.

Pension Scheme

The Company operates a defined contribution pension schemes for its employees. The assets of the scheme are held within independently administered funds.

2. Loss on ordinary activities

The operating loss result is stated after charging the following

	2011	2010
	£	£
Salaries and wages	6,407,090	609,712
Pension contributions	57,164	-
Employers social security	736,079	29,738
	7,206,338	63,450
Depreciation on tangible fixed assets (note 4)	254,039	3,531

2. Loss on ordinary activities (continued)

	2011	2010
	£	£
Auditors remuneration – audit services	35,000	23,210
Operating lease charge – land and buildings	196,096	22,096

3. Interest Expense

	2011	2010
	£	£
Interest payable to group undertakings	43,292	-

4. Tangible assets

	Computer Equipment	Furniture & Fixtures	Leasehold Improvements	Total
	£			£
<u>Cost</u>				
As at 1 January 2011	28,283	-	-	28,283
Additions during the period	623,878	196,379	491,084	1,311,341
As at 31 December 2011	652,161	196,379	491,084	1,339,624
<u>Accumulated Depreciation</u>				
As at 1 January 2011	(3,531)	-	-	(3,531)
Charge for the period	(96,286)	(42,271)	(115,482)	(254,039)
As at 31 December 2011	(99,817)	(42,271)	(115,482)	(257,570)
<u>Net Book Value</u>				
As at 1 January 2011	24,752	-	-	24,752
As at 31 December 2011	552,344	154,108	375,603	1,082,055

5. Cash and cash equivalents

	2011 £	2010 £
Cash at bank and on hand	536,733	271,120
Cash at bank held on behalf of other group members	286,315	-
	<u>823,049</u>	<u>271,120</u>

Included in cash and cash equivalents is an amount for £30,000 which is held with restrictions

6. Inventories

	2011 £	2010 £
Prepaid Vouchers	6,490	-
	<u>6,490</u>	<u>-</u>

The cost of voucher inventories is recognised as a marketing expense and included in administrative expenses when the sale is recognised

7. Debtors

	2011 £	Restated 2010 £
Trade Debtors	318,340	70,872
Amounts owed from group undertakings	870,116	-
Other debtors	240,573	-
Prepayments	85,010	-
	<u>1,514,039</u>	<u>70,872</u>

The Company has made losses in the period but has not recognised any deferred tax asset as there is no history of the Company making profits to utilise any such tax asset

The refund provision recorded in 2010 has been restated from Debtors to Provisions

8. Creditors - amounts falling due within one year

	2011 £	2010 £
Trade Creditors	2,850,977	97,916
Amounts owed to group undertakings	15,834,420	59,205
Tax and social security	369,511	94,042
Other creditors	814,955	78,131
	<u>19,869,863</u>	<u>329,294</u>

Interest is paid on amounts owed to group undertakings at variable rates prevailing in individual loan agreements

9. Provisions

	2011 £	Restated 2010 £
Provisions brought forward at 1 January 2011	59,219	-
New provisions in the year/period for refunds	1,741,442	59,219
	<u>1,800,661</u>	<u>59,219</u>

The Company records a provision for estimated refunds based on historical refund patterns. Refunds are recorded as a reduction of turnover and are adjusted as appropriate as actual refund activity occurs.

The refund provision recorded in 2010 has been restated from Debtors to Provisions.

10. Called up share capital

	2011 £	2010 £
Authorised		
100 ordinary shares of £1.00 each	<u>100</u>	<u>100</u>
Allotted and fully paid		
10 ordinary shares of £1.00 each	<u>-</u>	<u>10</u>
100 ordinary shares of £0.10 each	<u>10</u>	<u>-</u>

The 10 issued ordinary shares of £1 00 were each sub-divided into 100 ordinary shares of £0 10 on 19 December 2011

11. Share Based Payments

Under the LivingSocial, Inc 2010 Equity Incentive Plan ("the Plan"), an aggregate of 1,326,380 options were outstanding for 72 employees and 1 director of LivingSocial Limited at 31 December 2011. Options granted under the Plan may be incentive stock options ("ISOs") or nonqualified stock options. ISOs may only be granted to employees.

The grant dates of the options were 11 May 2010, 17 June 2010, 20 October 2010, 9 February 2011, 1 April 2011, 16 June 2011, 25 July 2011, 8 September 2011, 27 October 2011 and 8 December 2011.

The board of directors of the Group determines the period over which options become vested and exercisable, which has generally been four years. The exercise price of ISO's may be no less than 100% of the fair market value per share of LivingSocial, Inc common stock on the grant date (110% of fair market value for ISO's granted to holders of more than 10% of the voting stock of the Company). The term of the options is up to ten years.

A summary of option activity for the years ended 31 December 2011 and the period ended 31 December 2010 is presented below:

	# of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value
Outstanding at 31/12/2010	1,260,000	\$0 55	9 05	\$7,666,113
Granted	156,006	\$6 55	-	-
Exercised	-	-	-	-
Expired/Forfeited	(89,626)	\$1 68	-	-
Outstanding at 31/12/2011	1,326,380	\$1 18	8 59	\$7,788,755
Vested/Exercisable at 31/12/2011	464,256	\$0 52	8 41	\$3,007,476
Vested and Expected to Vest	1,293,617	\$1 17	8 59	\$7,607,057

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock option grants. The determination of the fair value of stock-based compensation grants is affected by estimates of the fair value of the Company's stock price as well as assumptions regarding a number of variables, including stock price volatility, risk-free interest rate, and actual and projected stock option exercise behaviours. The Company estimated the fair value for these stock options at the grant date, using the following assumptions:

	2011	2010
Risk-free interest rate	1 43% - 2 59%	1 79% - 2 97%
Expected dividend yield	0 00%	0 00%
Expected volatility	49 5% - 49 9%	49 9%
Expected term (years)	6 25	6 25

The ultimate parent company LivingSocial, Inc does not anticipate paying dividends on common stock during the expected term of the grants, therefore, the dividend rate was assumed to be zero Expected volatility is estimated by considering the historical volatility of similar publicly-traded companies for which share price information is available The expected term represents the period of time the stock options are expected to be outstanding LivingSocial, Inc estimated the expected term using the "simplified-method" as it does not have sufficient historical exercise data to provide a reasonable estimate

LivingSocial Limited has not recognised any share based payment expense for the year ended December 31, 2011 in line with the requirements of the FRSSSE for equity settled share options

12. Reserves	Other reserves	Profit and loss account
	2011	2011
	£	£
At 1 January 2011	2,774,981	(2,796,760)
Loss for the year ended 31 December 2011	-	(18,223,122)
At 31 December 2011	2,774,981	(21,019,882)

The other reserves relates to a capital reserve that arose in 2010 through the conversion of debt to equity by the parent undertaking

13. Reconciliation of movements in equity shareholders' deficit	2011
	£
Loss for the financial period	(18,223,122)
Increase in called up share capital	-
Opening equity shareholder's deficit	(21,769)
Closing equity shareholder's deficit	(18,244,891)

14. Directors emoluments

	2011	2010
	£	£
Aggregate emoluments	85,291	-

The Company had three directors at 31 December 2011 The emoluments relating to the highest paid director amounted to £85,291 No other remuneration was paid to the directors by the Company for the year ended 31 December 2011 There was one director with benefits accruing under the company pension scheme in 2011 (2010 none)

15. Taxation on profit on ordinary activities

There was no tax on profits payable in the year/period. During this year and the 2010 period, the Company has been making losses.

Factors affecting the tax charge for the current period

The above current tax charge is explained below:

	2011 £	2010 £
Current tax reconciliation		
(Loss) / profit on ordinary activities before tax	(18,223,122)	(2,796,760)
Current tax at 26.0% (2010: 28.0%)	(4,738,011)	(783,092)
Effects of:		
Income not subject to tax	-	-
Expenses not deductible for tax purposes	-	-
Utilisation of losses	-	-
Other timing differences	4,738,011	783,092
Losses not previously recognized	-	-
Total current tax charge	-	-

Factors affecting the tax charge in future periods

On 21 March 2012 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2012 would be 24% (as opposed to 25% which was substantively enacted on 5 July 2011) and that the previously announced reductions of 1% per annum would result in the UK Corporation Tax rate reducing to 22% (as opposed to 23%) with effect from 1 April 2014. Note, the above does not have any implication in respect of current accounting as it has not been substantively enacted.

16. Related party transactions

LivingSocial Limited is wholly owned within the LivingSocial Inc. group. The Company has taken advantage of the exemption available under Financial Reporting Standard No. 8 not to disclose related party transactions with other group companies.

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is LivingSocial, Inc., a Company registered in the United States of America. Their address is 1445 New York Avenue, Suite 200, Washington DC 20005.

LivingSocial Inc. is also the parent undertaking of the smallest and largest group to consolidate these financial statements.

18. Post Balance Sheet Events

There are no post balance sheet events that are relevant to disclose.