

GENERAL BUSINESS INFORMATION

- As of December 31, 2018, we had 35,587 employees.
- Facebook consider the following as competition:
 - For example, among other areas, we compete with Apple in messaging, Google and YouTube in advertising and video, Tencent in messaging and social media, and Amazon in advertising.
 - Does Apple monetize their messaging app?
- In September 2018, we announced our discovery of a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens, which were then used to access certain profile information from approximately 29 million user accounts on Facebook.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- We intend to continue to invest based on this roadmap and we anticipate that additional investments in the following areas will continue to drive significant year-over-year expense growth in 2019: (i) expanding our data center capacity, network infrastructure, and office facilities as well as scaling our headcount to support our growth, and (ii) investments in safety and security, marketing, video content, and our long-term technology initiatives. Expense growth exceeded revenue growth in 2018, which we anticipate will continue in 2019.
- For 2018, worldwide ARPU was \$24.96, an increase of 24% from 2017.

RESULTS OF OPERATIONS

FACTOR	VARIATION YOY (Full year)	DRIVER
Revenue	+ 37%	<ul style="list-style-type: none">Advertising +38% Payments +16%<ul style="list-style-type: none">First YoY growth when comparing years for Payments. First positive quarter was Q3.Increase in revenue from ads in mobile (92% of total ad revenue from mobile)Factors that influenced in increase of ads:<ul style="list-style-type: none">Increase in avg price per adIncrease in # of ads deliveredAvg price of ad increase 13% # of ads increase 22%<ul style="list-style-type: none">Increase in demand for ad inventory increased price.Increase in number of ads due to more users and engagement.Future revenue will increase due to a combination of above factors.Weakening of US dollar had favorable impact on revenue.
Cost of Revenue	+72%	The increase was mostly due to an increase in operational expenses related to our data centers and technical infrastructure and higher costs associated with partnership agreements, including traffic acquisition and content acquisition costs.
R&D	+32%	Payroll +43% headcount <ul style="list-style-type: none">In 2019, we plan to continue to hire software engineers and other technical employees, and to increase our investment to support our research and development initiatives. We expect payroll and related expenses growth to be more consistent with headcount growth as share-based compensation related to the acquisitions completed in 2014 are now substantially recognized.
Marketing & Sales	+66%	The increases in both periods were primarily driven by marketing, community operations, and payroll and benefits expenses. Our payroll and benefits expenses increased as a result of a 33% increase in employee headcount
General & Admin	+37%	Payroll +32% headcount
Taxes	-30%	<ul style="list-style-type: none">primarily due to a one-time expense of approximately \$2.27 billion in 2017 resulting from the Tax Act, partially offset by an increase in income before provision for income taxes.Our effective tax rate in 2018 decreased compared to 2017, primarily due to a one-time tax expense of approximately \$2.27 billion related to the Tax Act in 2017.Effective tax rate remains constant at 13%.

LIQUIDITY & CAPITAL RESOURCES

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 - NOL: \$7.88B

- Federal tax credit: \$290M
- In December 2018, our board of directors authorized an additional \$9.0 billion of repurchases under this program. During the year ended December 31, 2018, we repurchased and subsequently retired 79 million shares of our Class A common stock for \$12.93 billion. As of December 31, 2018, \$9.0 billion remained available and authorized for repurchases.
- Trapped Cash: \$16.28B
 - The Tax Act imposed a mandatory transition tax on accumulated foreign earnings and eliminated U.S. taxes on foreign subsidiary distributions. As a result, earnings in foreign jurisdictions are available for distribution to the U.S. without incremental U.S. taxes.

NOTES TO CONSOLIDATED FINANCIALS

- Revenue by geographic region (P. 66)
- Operating Leases (P.78)
- In 2018, we established a multi-currency notional cash pool for certain of our entities with a third-party bank provider. Actual cash balances are not physically converted and are not commingled between participating legal entities. As part of the notional cash pool agreement, the bank extends overdraft credit to our participating entities as needed, provided that the overall notionally pooled balance of all accounts in the pool at the end of each day is at least zero. In the unlikely event of a default by our collective entities participating in the pool, any overdraft balances incurred would be guaranteed by Facebook, Inc.
- As of December 31, 2018, there were 2,385 million shares and 469 million shares of Class A common stock and Class B common stock, respectively, issued and outstanding. (P.80)
- Stock Options (P.80)