

Facebook Ireland Limited

Directors' Report and Financial Statements

Financial Year Ended 31 December 2018

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DIRECTORS' AND OTHER INFORMATION

Board of directors at date of signing

Gareth Lambe
Yvonne Cunnane
Maria Begona Fallon (appointed 1 July 2019)
Fiona Mullan (appointed 27 August 2019)
David Geraghty (appointed 27 August 2019)

Solicitors

Matheson
70 Sir John Rogerson's Quay
Dublin 2

Secretary and registered office

Matsack Trust Limited
4 Grand Canal Square
Grand Canal Harbour
Dublin 2

Registered number: 462932

Bankers

Bank of America
2 Park Place
Hatch Street
Dublin 2

Bank Mendes Gans N.V.
Herengracht 619
1017 CE Amsterdam
The Netherlands

Auditor

Ernst & Young
Chartered Accountants
Harcourt Centre
Harcourt Street
Dublin 2

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2018.

Principal activity and review of the business

Facebook Ireland Limited ("the company") is a wholly-owned subsidiary of Facebook International Operations Limited, which is its immediate parent and controlling party. Facebook International Operations Limited is incorporated in the Republic of Ireland and its ultimate parent is Facebook, Inc. ("Facebook"), a company incorporated in Wilmington, Delaware, United States of America.

The Facebook Platform ("Platform") is a social utility that helps people share information more efficiently with their friends, families and co-workers. Facebook develops technologies that facilitate sharing this information. Facebook's mission is to give people the power to build community and bring the world closer together.

Revenue is generated primarily through online targeted advertising. Facebook bills third-party customers for advertisements on the Platform which it delivers to its users. The company has also entered into reseller agreements with a number of fellow group companies in respect of the sale of advertising services in their respective territories. The company also offers users the ability to pay third-party application developers for games and other services on the Platform, for which it earns a percentage commission.

The company has continued to grow during the year. Average headcount increased by 32%, from 1,008 in 2017 to 1,330 in 2018.

Results and dividends

The statement of comprehensive income and statement of financial position for the year ended 31 December 2018 are set out on pages 10 and 11 respectively. The profit before taxation amounted to €361.3 million (2017: €251.8 million). The profit after tax of €298.1 million (2017: €213.5 million) has been credited to reserves.

The directors do not recommend payment of a final dividend for the year (2017: €nil). During the year there was an interim dividend paid of €20 million (2017: €nil).

Review of key performance indicators

The key performance indicators focused on by management are turnover and cost of sales.

Turnover

Turnover increased from €19.0 billion in 2017 (restated) to €25.5 billion in 2018, an increase of €6.5 billion. This increase was attributable to growth in online advertising revenue from third-party customers.

Cost of sales

Cost of sales increased from €337.3 million in 2017 to €760.4 million in 2018, an increase of €423.1 million. These costs were primarily related to the generation of third party revenue. Furthermore, increased customer activity on the Platform resulted in higher data hosting service fees paid to third party providers.

Principal risks and uncertainties facing the business

The principal risks and uncertainties that the business faces include the emergence of rival social networks that could result in a reduction to the company's user base and pressure on margins by major customers, together with other normal commercial risks such as currency risk and credit risk. The directors take appropriate measures to minimise the company's exposure to all known risks.

Further principal risks and uncertainties have been identified as follows:

- a breach of online security may result in the site crashing, causing users to lose trust in the Platform;
- privacy issues could deter people from using the Platform;
- the loss of customers or a reduction in their advertising spend could severely impact revenues;
- a lack of innovation and new products and services may cause Facebook to lose competitiveness, which could affect revenue and operating results.

DIRECTORS' REPORT - continued

Financial risk management objectives and policies

Management has considered its exposure to the below risks, and does not consider the company to have significant exposures in respect of these risks.

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise a number of types of risk including interest rate risk and currency risk.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates. The company has no liabilities carrying interest rates, and as such management does not consider this to be a risk to the company.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk is monitored on an ongoing basis.

Credit risk is the risk that a counter party will not meet its objectives under a financial instrument or customer contract, leading to financial risk. The company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Liquidity risk is the risk that the company will encounter in realising assets or otherwise raising funds to meet commitments. The company monitors its risk to shortage of funds on a regular basis, its objective being to ensure sufficient funds are available to meet its obligations as they fall due.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Future developments

In 2019 the company will expand operations in Ireland, continuing to support and grow its user, advertiser and partner communities.

Subsidiary undertakings

The statutory information concerning subsidiary undertakings, required by Section 314 of the Companies Act 2014, is given in note 11 to the financial statements.

Directors and secretary and their interests

The directors of the company are set out below. They served as directors for the entire year unless otherwise stated.

Shane Crehan	(resigned 14 June 2018)
Gareth Lambe	
Yvonne Cunnane	
Maria Begona Fallon	(appointed 1 July 2019)
Fiona Mullan	(appointed 27 August 2019)
David Geraghty	(appointed 27 August 2019)

In accordance with the Articles of association, the directors are not required to retire by rotation.

None of the directors, nor the secretary of the company had a direct interest in the share capital of the company at year end. The directors held interests of less than 1% of the issued share capital of the company's ultimate holding company, Facebook, Inc. and are therefore exempt from disclosure in the financial statements under section 260 of the Companies Act 2014.

The directors and secretary and their families had no other interests in the shares of the company, or any other group company, at 31 December 2018 that require disclosure.

DIRECTORS' REPORT - continued

Accounting records

The measures taken by the directors to secure compliance with the company's obligation to keep adequate accounting records, in accordance with Sections 281 and 285 of the Companies Act 2014, are the use of appropriate systems and procedures and the employment of competent personnel. The accounting records are kept at 4 Grand Canal Square, Grand Canal Harbour, Dublin 2.

Statement of directors' responsibilities

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

Irish law requires the directors to prepare financial statements for each financial year that give a true and fair view of the company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the company for the financial year. Under that law the directors have prepared the financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council including Financial Reporting Standard 101 'Reduced Disclosure Framework' and Irish law). Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the company's assets, liabilities and financial position as at the end of the financial year, and the profit or loss of the company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

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.

Events since the end of the financial year

During 2019 the company entered into a lease agreement to lease a campus located in Ballsbridge, Dublin 4.

There have been no other subsequent events affecting the company since the year end that require adjustment to or disclosure in the financial statements.

Disclosure of information to auditor

The directors in office at the date of this report have each confirmed that:

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

DIRECTORS' REPORT - continued

Directors' compliance statement

The directors acknowledge that they are responsible for securing the company's compliance with its relevant obligations.

The directors confirm that:

- 1) A compliance policy statement setting out the company's policies, that in their opinion are appropriate to the company, respecting compliance by the company with its relevant obligations has been drawn up.
- 2) Appropriate arrangements or structures that are designed to secure material compliance with the company's relevant obligations have been put in place.
- 3) A review of the arrangements and structures referred to at 2 above has been conducted during the financial year ended 31 December 2018.

Non preparation of group financial statements

Consolidated accounts have not been prepared for the year ended 31 December 2018 as the company is exempt from the obligation to prepare and deliver group accounts under Section 300 of the Companies Act 2014, whereby the company and all of its subsidiary undertakings are included in the consolidated accounts for a larger group, drawn up to the same date, Facebook, Inc. Those accounts have been drawn up in accordance with the provisions of the Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts. Consequently, the accounts present information about the company as an individual undertaking and not about its group.

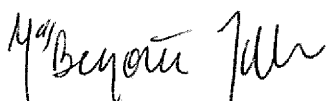
Audit committee

The company has not established an audit committee. The directors confirm that the functions which would be undertaken by any such audit committee are fulfilled by the existing structure in place being primarily the audit committee established and operated by Facebook, Inc. which undertakes the financial oversight functions for the group as a whole, including the company.

Auditor

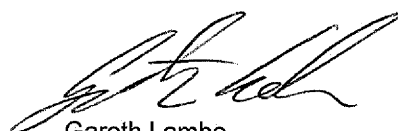
The auditor, Ernst & Young, Chartered Accountants have indicated their willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

On behalf of the board



Maria Begona Fallon
Director

Date: 13 NOVEMBER 2019



Gareth Lambe
Director

Date: 13 NOVEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FACEBOOK IRELAND LIMITED

Opinion

We have audited the financial statements of Facebook Ireland Limited ('the Company') for the year ended 31 December, 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and Accounting Standards including FRS 101 Reduced Disclosure Framework (Irish Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December, 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with Irish Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (Ireland) require us to report to you where:

- 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.

Continued.../

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FACEBOOK IRELAND LIMITED (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Director's Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Continued.../

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FACEBOOK IRELAND LIMITED (Continued)

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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 IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Marie Treacy

Marie Treacy
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm
Dublin

Date: *14 November 2019*

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2018

	Notes	2018 €'000	Restated (note 20) 2017 €'000
Turnover	2	25,491,810	19,035,256
Cost of sales		<u>(760,446)</u>	<u>(337,263)</u>
Gross profit		24,731,364	18,697,993
Administrative expenses		<u>(24,388,459)</u>	<u>(18,449,025)</u>
Operating profit	4	342,905	248,968
Interest payable and similar charges	6	(660)	(1,219)
Interest receivable and similar income	7	<u>19,041</u>	<u>4,029</u>
Profit on ordinary activities before taxation		361,286	251,778
Tax on profit on ordinary activities	8	<u>(63,209)</u>	<u>(38,320)</u>
Profit for the financial year - attributable to owners		<u>298,077</u>	<u>213,458</u>
Total comprehensive profit for the year:			
- attributable to owners		<u>298,077</u>	<u>213,458</u>

The profit for the financial year and the accumulated profit brought forward have been included in the company's profit and loss account reserves.

Turnover and operating profit arose solely from continuing operations.

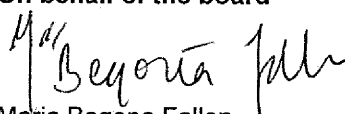
The notes on pages 13 to 34 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

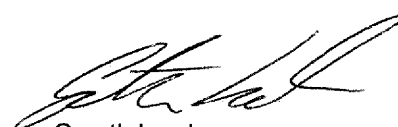
	Notes	2018 €'000	2017 €'000
Fixed assets			
Intangible assets	9	2	6
Tangible assets	10	71,392	58,617
Financial assets	11	4,436	4,436
		<u>75,830</u>	<u>63,059</u>
Current assets			
Debtors - amounts falling due within one year	12	3,815,974	2,770,960
Debtors - amounts falling due after more than one year	12	4,079	2,222
Cash and cash equivalents		<u>1,268,701</u>	<u>1,121,616</u>
		5,088,754	3,894,798
Creditors - amounts falling due within one year	14	<u>(3,258,319)</u>	<u>(2,357,716)</u>
Net current assets		<u>1,830,435</u>	<u>1,537,082</u>
Total assets less current liabilities		<u>1,906,265</u>	<u>1,600,141</u>
Creditors - amounts falling due after more than one year	15	<u>(20,125)</u>	<u>(37,015)</u>
Net assets		<u>1,886,140</u>	<u>1,563,126</u>
Capital and reserves			
Called up share capital presented as equity	16	-	-
Capital contributions	16	1,012,423	1,012,423
Other reserves	16	155,905	110,968
Profit and loss account	16	<u>717,812</u>	<u>439,735</u>
Equity shareholder's funds		<u>1,886,140</u>	<u>1,563,126</u>

The notes on pages 13 to 34 form an integral part of these financial statements.

On behalf of the board


 Maria Begona Fallon
 Director

Date: 13 NOVEMBER 2019


 Gareth Lambe
 Director

Date: 13 NOVEMBER 2019

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2018

Equity attributable to owners of the parent	Share capital €'000	Capital contributions €'000	Other reserves €'000	Profit and loss account €'000	Total equity €'000
Balance at 1 January 2017	-	1,012,423	73,623	226,277	1,312,323
Profit for the year	-	-	-	213,458	213,458
Total comprehensive income for the year	-	-	-	213,458	213,458
Share based payment charge (note 19)	-	-	37,345	-	37,345
Balance at 31 December 2017	-	1,012,423	110,968	439,735	1,563,126
Balance at 1 January 2018	-	1,012,423	110,968	439,735	1,563,126
Profit for the year	-	-	-	298,077	298,077
Total comprehensive income for the year	-	-	-	298,077	298,077
Dividends (note 17)	-	-	-	(20,000)	(20,000)
Share based payment charge (note 19)	-	-	44,937	-	44,937
Balance at 31 December 2018	-	1,012,423	155,905	717,812	1,886,140

NOTES TO THE FINANCIAL STATEMENTS

1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The accounting policies have been applied to the period, unless otherwise stated, in dealing with items which are considered material in relation to the financial statements.

1.1 Corporate information

The principal activity of Facebook Ireland Limited involves billing third-party customers for advertisements on the Facebook platform ("the Platform") which it delivers to its users. The company has also entered into reseller agreements with a number of fellow group companies in respect of the sale of advertising services in their respective territories. The company also offers users the ability to pay third-party applications developers for games and other services on the platform, for which it earns a percentage commission.

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors. The company is a limited company incorporated and domiciled in Ireland (registered number 462932). The registered office is located at 4 Grand Canal Square, Grand Canal Harbour, Dublin 2.

1.2 Basis of preparation

The financial statements are presented in euro ("€"). This is also the functional currency of the entity as it is the currency of the primary economic environment in which the entity operates. Unless otherwise stated, the financial statements have been presented in thousands ('000').

The financial statements have been prepared on the going concern basis and in accordance with Irish GAAP accounting standards issued by the Financial Reporting Council and the Companies Act 2014. The financial statements comply with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2014 ('the Act'). The financial statements are prepared under the historical cost convention, unless otherwise stated.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101, which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The preparation of financial statements in conformity with FRS 101 requires the use of certain assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.21.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Non preparation of group financial statements

Consolidated accounts have not been prepared for the year ended 31 December 2018 as the company is exempt from the obligation to prepare and deliver group accounts under Section 300 of the Companies Act 2014, whereby the company and all of its subsidiary undertakings are included in the consolidated accounts for a larger group, drawn up to the same date, Facebook, Inc. Those accounts have been drawn up in accordance with the provisions of the Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts. Consequently, the accounts present information about the company as an individual undertaking and not about its group.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.2 Basis of preparation - continued

Subsidiary undertakings

Details of subsidiary undertakings are included in note 11 to the financial statements. Investments in subsidiary undertakings are reported in financial assets on the statement of financial position, and are stated at cost.

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

- The requirement in paragraph 38 of IAS 1, 'Presentation of Financial Statements' to present comparative information in respect of;
 - (i) Paragraph 73(e) of IAS 16, 'Property, Plant and Equipment',
 - (ii) Paragraph 118(e) of IAS 38, 'Intangible Assets'.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 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'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)
- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, 'Revenue from Contracts with Customers'.

The consolidated financial statements of Facebook, Inc. are available to the public and can be downloaded free of charge from the company's investor relations website, located at <http://investor.fb.com>. The equivalent disclosures where required to apply the disclosure reductions of FRS 101, are included within the Form 10-K document that contains the publicly available financial statements of Facebook, Inc.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.3 Turnover

General revenue recognition

The company recognises revenue when control of the promised goods or services are transferred to the customer, in an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services.

Deferred revenue

The company records deferred revenue when cash payments are received or due in advance of the performance, including amounts which are refundable.

The company's payment terms vary by the type and location of the customer, and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, the company requires payment before the products or services are delivered to the customer.

Advertising revenue

The company generates revenues primarily by delivering advertising through displaying ad products on Facebook, Instagram, Messenger, and third-party affiliated websites or mobile applications.

Marketers pay for ad products either directly or through their relationships with advertising agencies or resellers, based on the number of impressions delivered or the number of actions, such as clicks, taken by our users.

Revenue is recognised when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services. The company recognises revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. For advertising revenue arrangements where the company is not the principal, the company recognises revenue on a net basis.

The company reports advertising revenues for ads placed on Facebook on a gross basis, as the company is the principal in the arrangement.

For ads placed on Facebook through agreements with the company's reseller affiliates, the company reports advertising revenues on a gross basis.

Research and development services revenue

The company generates revenue through a services agreement with another group company for the provision of Research and Development services.

Revenue from this agreement is recognised when the obligation to the customer is satisfied, and control of the promised service is transferred.

The service fee charged is based on the level of expenses incurred by the company in the performance of services.

1.4 Employee benefits

(a) Short term employee benefits

Short term employee benefits, including wages and salaries, are recognised as an expense in the financial year in which the employees render the related service.

(b) Pensions

The company operates a defined contribution plan for certain employees. Contributions by the company to a defined contribution pension scheme are recognised as an employee benefit expense as service is received from employees. Once contributions have been paid, the company has no further obligations.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.5 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Benefits received as an incentive to enter into an operating lease, such as rent-free periods are also spread on a straight-line basis over the lease term as a reduction of the rental expense.

These benefits are recognised as deferred rent liabilities as they arise over the rent-free period and are shown on the statement of financial position. They are classified within current liabilities if they will be recognised within one year or less. If not, they are presented as creditors - amounts falling due after more than one year.

1.6 Dividends payable

Interim dividends are recorded in the financial statements in the year in which they are approved and paid.

1.7 Interest receivable and similar income

Interest receivable comprises interest receivable on cash at bank and bank deposits calculated using the effective interest rate method, and are recognised in the statement of comprehensive income.

1.8 Interest payable and similar charges

Interest payable generally comprises interest payable on borrowings calculated using the effective interest rate method, or interest and penalty expenses. These are recognised in the statement of comprehensive income.

1.9 Income tax

Income tax on the statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(a) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

(b) Deferred tax

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current or deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.10 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, held for the purpose of meeting short-term cash commitments, and bank deposits. Cash at bank and bank deposits earn interest at floating rates based on daily deposit bank rates. Bank deposits are made for varying periods depending on the immediate cash requirements of the company and earn interest at the respective deposit interest rates.

The company together with other legal entities in the Facebook group is a member of a multi-currency notional cash pooling arrangement with a third party bank provider. Cash balances from the Facebook group cash pooling arrangement are presented in cash and cash equivalents or Other payables within Creditors:- amounts falling due within one year.

1.11 Debtors

Trade debtors are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as amounts due after more than one year, within current assets.

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Recognition and measurement of these financial instruments is dealt with in note 1.19.

1.12 Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.13 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors also comprise accrued expenses, deferred income and various taxes payable. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors - amounts falling due after more than one year.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Recognition and measurement of these financial instruments is dealt with in note 1.19.

1.14 Foreign currency

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities which are measured using historic cost are translated at the exchange rates at the date of the initial translation and are not subsequently retranslated. Non-monetary assets and liabilities which are measured using fair value are translated at the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.15 Intangible assets

Intangible assets (other than goodwill) are recognised at fair value on the acquisition date. These assets are amortised on a straight-line basis over their estimated useful lives of 3 years. The company tests the carrying value of its other intangible assets for impairment in the full financial year following the initial recognition of the intangible assets, and subsequently if events or changes in circumstances indicate that this asset may be impaired. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount, which in turn is the higher of fair value less cost to sell or value in use.

1.16 Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The cost of the day-to-day servicing of tangible fixed assets is charged to the statement of comprehensive income during the financial period in which they are incurred.

Each part of an item of tangible assets with a cost that is significant in relation to the total cost of the item, and which have different useful lives, are depreciated separately.

Depreciation on assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method, other than for assets under construction, which are not depreciated until such time as the assets are ready for their intended use. The estimated useful lives are as follows:

Computer equipment	3 years
Office equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	shorter of useful life or lease term
Lab equipment	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if there is an indication of a significant change since the last end of reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment is assessed by comparing the carrying value of an asset with its recoverable amount, which in turn is the higher of fair value less cost to sell or value in use.

1.17 Financial fixed assets

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

Impairment of financial fixed assets

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

1.18 Share capital

Called up shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.19 Financial instruments

*(a) Financial assets**Classification*

From 1 January 2018, the company classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial instrument and the contractual terms of the cash flows.

In order for a financial asset to be classified and measured at amortised cost its contractual cash flows should be 'solely payments of principal and interest' (SPPI) on the principal amount outstanding and the financial assets should be held under a business model where cash flows result from collecting contractual cash flows. Financial assets which are debt instruments are measured at fair value through other comprehensive income where the contractual cash flows are SPPI and the assets are managed under a business model where cash flows result from both collecting contractual cash flows and selling the financial assets.

For instruments measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The company reclassifies debt instruments when, and only when, its business model for managing those assets changes.

Recognition, Measurement and derecognition

Financial assets are recognised on the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss ('FVTPL'), directly attributable transaction costs. A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, except for those subsequently measured at fair value through other comprehensive income ('FVTOCI'), the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

For derecognition of financial assets measured at FVTOCI, any cumulative gain or loss is recognised in other comprehensive income. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Debt instruments

Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. All the company's debt instruments are measured at amortised cost as the assets are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS - continued**1 Significant accounting policies - continued****1.19 Financial instruments - continued***(a) Financial assets – continued**Debt instruments - continued*

The company's debt instruments consist of the following:

- Loans and receivables owed from related parties
- Trade receivables and other receivables

Impairment

For trade receivables, including intercompany trade receivables, the entity applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The company uses judgement in making assumptions around the risk of default and expected loss rates, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

For loans owed from related parties, the company applies the general approach to providing for expected credit losses, as prescribed by IFRS 9. The general expected credit loss model under IFRS 9 requires the calculation of '12 month expected credit losses' (losses based on defaults which are possible within 12 months of the reporting date) for financial assets, unless the asset at the reporting date is not considered to be 'low credit risk' and is deemed to have had a 'significant increase in credit risk' since initial recognition, in which case lifetime expected credit losses should be recorded.

Management consider amounts due from related parties to have 'low credit risk' when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the short term.

(b) Financial liabilities

Financial liabilities at amortised cost include borrowings and trade and other creditors. These financial instruments are initially measured at fair value, net of any transaction costs in the case of borrowings, and subsequently measured at amortised cost using the effective interest rate.

Borrowings are classified as current liabilities (creditors due within one year), unless the group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

Financial liabilities are derecognised when the group's obligations specified in the contract expire, are discharged or cancelled. Interest expense is recognised using the effective interest method.

(c) Accounting policies applied before 1 January 2018

The company has applied the modified retrospective approach as allowed under IFRS 9. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy.

Classification

Until 31 December 2017, the company classified its financial assets in the following categories:

- Loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.19 Financial instruments – continued

(c) *Accounting policies applied before 1 January 2018 - continued*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included as:

- Current debtors: Trade debtors
- Current debtors: Amounts owed by group undertakings
- Current debtors: Other debtors

The asset is initially recognised at its fair value including directly attributable and incremental transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

If the original advanced amount to a fellow group entity does not equate to the fair value on initial recognition, the difference is reflected in the statement of comprehensive income. Interest income is recognised using the effective interest method.

Financial liabilities

The company classifies its financial liabilities in the following measurement categories:

- Financial liabilities at amortised cost

Financial liabilities at amortised cost include amounts owed to group undertakings, borrowings and trade and other creditors. These financial instruments are initially measured at fair value, net of any transaction costs in the case of financial liabilities, and subsequently measured at amortised cost using the effective interest rate. Financial liabilities are classified as current liabilities (creditors due within one year), unless the company has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

Financial liabilities are derecognised when the company's obligations specified in the contract expire, are discharged or cancelled.

Interest expense is recognised using the effective interest method.

1.20 Share-based payments

Facebook, Inc. (the "ultimate holding company") operates a share-based compensation plan. Employees of the company receive remuneration in the form of equity instruments (restricted stock units "RSUs") of its ultimate holding company as consideration for services rendered.

The fair value of the employee services received in exchange for the grant of the RSUs is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted.

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the ultimate holding company revises its estimates of the number of RSUs that are expected to vest based on the non-market vesting conditions. The company recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income.

When the RSUs are exercised, the ultimate holding company issues new shares. The grant of equity instruments by the ultimate holding company to the employees of the company is treated as equity-settled, with a corresponding increase in equity as a contribution from the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.21 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) *Useful economic lives of tangible assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the tangible assets, and note 1.16 for the useful economic lives for each class of asset.

(b) *Impairment of trade and other debtors*

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 12 for the net carrying amount of the receivables and associated impairment provision.

For trade receivables and other receivables (intercompany trade receivables), the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable.

1.22 Insurance contracts

Insurance contracts are arrangements in which one party, the insurer, accepts significant insurance risk from another party, the policyholder, to compensate the policyholder if a specific uncertain future event impacts the policyholder. The company has entered into insurance contract agreements with a fellow group company accepting liquidity risk on behalf of the fellow group company.

1.23 Recent accounting pronouncements

The following new standards and amendments are effective for the first time for periods beginning on or after 1 January 2018.

The adoption of the new accounting standard for financial instruments, IFRS 9

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) superseded IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018.

In accordance with the transitional provisions in IFRS 9, the company has applied the modified retrospective transition method and has not restated prior year comparative figures. Results for the year ended 31 December 2018 are presented under IFRS 9, while results for the year ended 31 December 2017 are reported in accordance with IAS 39. Under the modified retrospective transition method, any cumulative adjustment from the adoption of IFRS 9 is recognised in opening retained earnings as at 1 January 2018. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that have applied to disclosures relating to the prior period but have not been included in the comparative information. However, following the adoption of IFRS 9, there has been no adjustment made to retained earnings.

The company does not apply hedge accounting, therefore no further disclosures have been provided.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Significant accounting policies - continued

1.23 Recent accounting pronouncements - continued

The adoption of the new accounting standard for revenue from contracts with customers, IFRS 15

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes the revenue recognition requirements of IAS 18, Revenue and IAS 11, Construction Contracts and requires entities to recognise revenue when control of the promised goods or services are transferred to customers, at an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. IFRS 15 has an effective date of 1 January 2018. The company has adopted IFRS 15 on 1 January 2018 using the retrospective method applied to contracts not completed as of this date.

The impact of the adoption of IFRS 15 is shown in note 20 to the financial statements.

2 Turnover

Turnover is the value of the principal services supplied by the company, net of value added tax. The principal services are disclosed in note 1.3.

An analysis of turnover by geographical market is not disclosed as the directors are of the opinion that it would be seriously prejudicial to the interests of the company.

3 Employees and directors

	2018 Number	2017 Number
The average number of employees of the company (including directors) during the year was as follows:		
Sales	434	411
Administration	325	211
Engineering	198	144
Community operations	373	242
	<u>1,330</u>	<u>1,008</u>
	2018 €'000	2017 €'000

Staff costs for all employees, including executive directors, consist of:

Wages and salaries	138,234	96,533
Social welfare costs	16,739	11,029
Pension costs	4,968	3,399
Other benefits	25,932	17,909
Share based payment (note 19)	44,937	37,345
	<u>230,810</u>	<u>166,215</u>

Included in staff costs are the following:

Directors' emoluments for qualifying services	<u>706</u>	<u>707</u>
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Contributions to retirement benefit schemes:

- Defined contribution	<u>34</u>	<u>32</u>
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NOTES TO THE FINANCIAL STATEMENTS - continued

4 Operating profit	2018	2017
	€'000	€'000

Expenses by nature

The profit on ordinary activities before taxation is arrived at after charging:

Depreciation of tangible assets	10,709	6,651
Amortisation of intangible assets	4	6
Foreign exchange loss	49,925	154,213
Auditor's remuneration (note 5)	820	417
Rentals payable under operating leases	19,121	11,805

5 Auditor's remuneration	2018	2017
	€'000	€'000

During the year the company obtained the following services from the company's auditor:

Audit of entity financial statements	125	144
Other assurance services	319	273
Audit fees paid on behalf of group companies	376	-
	820	417

Fees paid to the company's statutory auditors, Ernst & Young, in respect of the financial year, relate to statutory audit and other assurance services for Facebook Ireland and related companies.

6 Interest payable and similar charges	2018	2017
	€'000	€'000
Bank interest expense	660	1,042
Intercompany interest expense	-	177
	660	1,219

7 Interest receivable and similar income	2018	2017
	€'000	€'000
Bank interest income	19,041	3,959
Intercompany interest income	-	70
	19,041	4,029

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Tax on profit on ordinary activities	2018	2017
	€'000	€'000
<i>Current tax:</i>		
Irish corporation tax on profit on ordinary activities	64,733	39,147
Current tax charge for the financial year	64,733	39,147
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(1,524)	(827)
Total tax on profit on ordinary activities	63,209	38,320
Reconciliation of the expected tax charge at the statutory tax rate to the actual tax charge at the effective rate		
The assessed tax charge for the year is different to the statutory rate of corporation tax in the Republic of Ireland (12.5%). The differences are explained below:		
Profit on ordinary activities before tax	361,286	251,778
Profit on ordinary activities multiplied by statutory rate of corporation tax in Republic of Ireland of 12.5%	45,161	31,472
<i>Effects of:</i>		
Expenses not deductible for tax purposes	15,153	6,344
Income subject to a higher rate of tax	2,895	504
Total tax charge	63,209	38,320
9 Intangible assets	Computer software	Total
	€'000	€'000
Cost		
At 31 December 2018 and 2017	17	17
Depreciation		
At 31 December 2017	(11)	(11)
Charge for the year	(4)	(4)
At 31 December 2018	(15)	(15)
Net book values		
At 31 December 2018	2	2
At 31 December 2017	6	6

NOTES TO THE FINANCIAL STATEMENTS - continued

10 Tangible assets

	Lab equipment	Leasehold improvements	Computer equipment	Fixtures and fittings	Office equipment	Assets in course of construction	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Cost							
At 1 January 2018	3,855	50,797	2,712	1,008	13,468	3,723	75,563
Additions	4,344	3,476	-	378	2,589	12,697	23,484
Disposals	-	(99)	(136)	-	(4,502)	-	(4,737)
Transfers (from)/to other classes	1,930	9,066	132	282	1,923	(13,333)	-
At 31 December 2018	10,129	63,240	2,708	1,668	13,478	3,087	94,310
Depreciation							
At 1 January 2018	(647)	(6,116)	(1,322)	(127)	(8,734)	-	(16,946)
Charge for the year	(2,229)	(4,095)	(653)	(238)	(3,494)	-	(10,709)
Disposals	-	99	136	-	4,502	-	4,737
At 31 December 2018	(2,876)	(10,112)	(1,839)	(365)	(7,726)	-	(22,918)
Net book values							
At 31 December 2018	7,253	53,128	869	1,303	5,752	3,087	71,392
At 31 December 2017	3,208	44,681	1,390	881	4,734	3,723	58,617

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Financial assets	2018 €'000	2017 €'000
<i>Shares in group undertakings</i>		
<i>Amount invested in unlisted subsidiaries at cost:</i>		
At the beginning of the year	4,436	165,501
Additions during the year	-	1,853
Disposals during the year	-	(162,918)
At the end of the year	<u>4,436</u>	<u>4,436</u>

Additions**2017**

During February 2017 the company made additional investments in Facebook Israel Holdings, a company incorporated in Israel for a consideration of €1.9 million.

Disposals**2017**

On 1 August 2017 the company transferred its 100% shareholding in Facebook Sweden Holdings AB to a fellow group company, Facebook International Operations Limited for a consideration of €160.5 million.

During 2017 the company's subsidiary Facebook Luxembourg Sarl returned the company's equity investment of €2.4 million and liquidated under Luxembourg law.

The company directly or indirectly owns 100% of the companies detailed below:

Name of company	Principal activity	Address of registered office	Ownership percentage
FB Israel Holdings	Holding company	4 Weizmann Street Tel Aviv, Israel	100%
Snaptu Limited	Dormant	3 Shoham Street Ramat – Gan, Israel	100%

In the opinion of the directors the recoverable amount of the above investments is not less than the cost.

12 Debtors	2018 €'000	2017 €'000
(a) Amounts falling due within one year		
Trade debtors	2,095,267	1,889,663
Amounts owed by parent and fellow subsidiary undertakings	1,629,619	808,286
VAT receivable	62,189	59,235
Prepayments	28,899	13,776
	<u>3,815,974</u>	<u>2,770,960</u>

Amounts owed by parent and fellow subsidiary undertakings are analysed as:

Intercompany trade receivables	1,469,092	643,670
Loans receivable	160,527	164,616
	<u>1,629,619</u>	<u>808,286</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Debtors - continued

(a) Amounts falling due within one year - continued

Trade debtors are non-interest bearing and repayable on demand.

On 1 August 2017, the company issued a loan by way of issuance of a promissory note of €161 million to its immediate parent undertaking, Facebook International Operations Limited. This loan is repayable on demand and non-interest bearing.

Due to their maturity being short-term in nature the carrying amounts of all trade and other receivables at the statement of financial position date approximated their fair values.

The company adopted IFRS 9 from 1 January 2018 and applied the modified retrospective transition method. As a result, comparative disclosures under IAS 39 have been included for trade receivables. For details on impairment provisions for trade and other provisions, see note 1.19.

	2018 €'000	2017 €'000
(b) Amounts falling due after more than one year		
Deferred tax asset (note 13)	3,746	2,222
Long term prepayments	333	-
	<u>4,079</u>	<u>2,222</u>

13 Deferred tax asset

The deductible and taxable temporary differences at the year-end dates in respect of which deferred tax has been recognised are analysed as follows:

	2018 €'000	2017 €'000
Deferred tax assets (deductible temporary differences):		
Property, plant and equipment	3,746	2,222
Total	<u>3,746</u>	<u>2,222</u>

Movement in deferred tax assets during the year were as follows:

	Property, plant and equipment €'000	Total €'000
At 31 December 2017	2,222	2,222
Movement during the year	<u>1,524</u>	<u>1,524</u>
At 31 December 2018	<u>3,746</u>	<u>3,746</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Creditors - amounts falling due within one year	2018	2017
	€'000	€'000
Trade creditors	199,778	142,645
Amounts owed to fellow subsidiary undertakings	2,533,353	1,958,654
VAT payable	5,561	2,315
Corporation tax	8,942	3,018
Other payables including tax and social insurance	131,971	44,680
Deferred rent	850	850
Accruals	314,684	171,913
Deferred revenue	63,180	33,641
	<u>3,258,319</u>	<u>2,357,716</u>

Other payables including tax and social insurance comprise:

PAYE	-	27
Withholding taxes	38,951	44,653
Other payables	93,020	-
	<u>131,971</u>	<u>44,680</u>

Trade creditors are non-interest bearing and are usually settled on 30-60 day terms.

Amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

The carrying amounts of all trade and other payables at the statement of financial position date approximated their fair values.

The increase in deferred revenue is primarily driven by cash payments received or due in advance of satisfying performance obligations, offset by € 33.6 million of revenue recognised that was included in the balance at the beginning of the year.

15 Creditors - amounts falling due after more than one year	2018	2017
	€'000	€'000
Other creditors	4,293	23,319
Deferred rent	15,832	13,696
	<u>20,125</u>	<u>37,015</u>
Deferred rent:		
At the beginning of the year	13,696	12,410
Movement during the year	2,136	1,286
At the end of the year	<u>15,832</u>	<u>13,696</u>

Deferred rent represents differences between amounts billed during the year and amounts recognised in the statement of comprehensive income for the year. Amounts recognised in the statement of comprehensive income are calculated using the straight-line basis for recognising the cost of each operating lease. Variances between the amounts billed by the lessor and amounts recognised by the company are recognised as deferred rent.

Other creditors include an amount of €2.9 million (2017: €2.9 million) in respect of liabilities recognised equal to the present value of the future cost of estimated reinstatement costs to bring the leased offices into their original condition at the end of the lease periods.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Called up share capital	2018 €	2017 €
Authorised equity		
100,000 ordinary shares of €1 each	<u>100,000</u>	<u>100,000</u>
Ordinary shares issued and fully paid		
1 ordinary share of €1 each	<u>1</u>	<u>1</u>

All shares carry equal voting rights. All shares issued are fully paid.

Profit and loss account

Profit and loss account represents accumulated comprehensive income for the financial period plus transfers in relation to reduction of share capital less dividends paid.

Other reserves

Other reserves constitute amounts contributed by the ultimate parent relating to share based compensation.

17 Dividends	2018 €'000	2017 €'000
Dividends paid (€20 million per ordinary share (2017: €nil))	<u>20,000</u>	<u>-</u>

18 Related party transactions

The company has a related party relationship with its immediate parent, ultimate parent company, and other related group companies.

The company has availed of the exemption in FRS 101 para 8(k), from disclosing related party transactions entered into between two or more wholly-owned members of the Facebook group.

19 Share-based payment

At 31 December 2018 Facebook, Inc. had one active stock based employee compensation plan (the 2012 Equity Incentive Plan ("the Plan")) under which new awards may be granted. Awards may include incentive share options, non-statutory share options, share purchase rights or restricted ordinary shares. The company has granted only restricted ordinary shares (RSUs) to employees of Facebook Ireland Limited. RSUs may be settled in cash or equity however the company intends to equity settle all RSUs. The vesting condition of the RSUs is that the employees must remain in employment until the initial vesting event.

The Plan permits the grant of RSUs over ordinary shares (class B common stock) in Facebook, Inc. The per-share exercise price of RSUs granted is generally nil.

The fair value of each RSU is estimated on the date of grant as the share price at the date of grant.

RSUs are granted to employees under the Plan upon hire, or based on performance criteria established by management. RSUs are independent of ordinary share options and are subject to forfeiture if employment terminates prior to the release of the restrictions.

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Share-based payment - continued

During the vesting period, ownership of the shares cannot be transferred. Once shares are issued pursuant to the terms of an RSU agreement, these shares have the same dividend and voting rights as other ordinary shares.

The weighted average share price during the year for RSUs settled was €145.22 (US\$171.67), (2017: €139.19 (US\$156.58)).

The total charge for the year relating to employee share-based payment plans was €44,937,188 (US\$51,978,732), (2017: €37,344,612 (US\$40,939,434)).

The fair value of RSUs granted in the year was €139.84 (US\$168.27) (2017: €135.02 (US\$147.62)).

During the year, directors of the company were granted RSUs with a fair value of €1,235,233 (US\$1,460,215), (2017: €1,171,484 (US\$1,430,733)).

	2018 RSUs Number	2017 RSUs Number
A reconciliation of movements in the number of RSUs outstanding are as follows:		
Outstanding at 1 January	621,584	644,379
Granted	406,304	355,693
Movements *	(23,059)	(52,100)
Settled	(311,198)	(303,101)
Forfeited	(33,661)	(23,287)
Outstanding at 31 December	<u>659,970</u>	<u>621,584</u>

* This accounts for the net change in outstanding awards due to employee transfers across territories.

20 First time adoption of IFRS 15

IFRS 15 introduces new criteria in assessing contracts for principal versus agent considerations, and applies a control based framework, rather than a risk and rewards based framework as previously required under IAS 18. The company has assessed the IFRS 15 principal versus agent guidance which has resulted in a change to the presentation of revenue relating to advertising agreements.

Under IAS 18, the company was the agent in advertising agreements with reseller affiliates, as the company was not the party responsible for providing services. Advertising revenues and associated expenses from these arrangements were reported on a net basis. Additionally under IAS 18, certain agency rebate costs were recorded in cost of sales.

Under IFRS 15, the company is the principal for advertising reseller agreements with reseller affiliates as it controls the advertising inventory before it is transferred to the customer. As a result, reseller revenues and associated expenses are presented gross in the statement of comprehensive income. Additionally under IFRS 15, certain agency rebate costs that were previously recorded in cost of sales are now recorded in turnover.

The changes to the company's accounting policies arising from the adoption of IFRS 15 are set out in note 1.3. These changes required a transition adjustment which resulted in an increase in turnover of €392.5 million (2017: €326.0 million) and an overall increase in expenses of the same amount (2017: the same amount). Consequently there are no adjustment to opening reserves to account for the new standard. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively and comparatives have been prepared in accordance with IFRS 15.

NOTES TO THE FINANCIAL STATEMENTS - continued

20 First time adoption of IFRS 15 - continued

2018	2017
€'000	€'000

The changes in each financial statement line item for the comparative period are outlined as follows:

Extract - Statement of Comprehensive income**(a) Turnover**

If reported under IAS 18	25,099,303	18,709,296
IFRS 15 transition adjustment	392,507	325,960
As reported under IFRS 15	<u>25,491,810</u>	<u>19,035,256</u>

(b) Cost of sale

If reported under IAS 18	1,266,603	574,668
IFRS 15 transition adjustment	(506,157)	(237,405)
As reported under IFRS 15	<u>760,446</u>	<u>337,263</u>

(c) Gross profit

If reported under IAS 18	23,832,700	18,134,628
IFRS 15 transition adjustment	898,664	563,365
As reported under IFRS 15	<u>24,731,364</u>	<u>18,697,993</u>

(d) Administrative expenses

If reported under IAS 18	23,489,795	17,885,660
IFRS 15 transition adjustment	898,664	563,365
As reported under IFRS 15	<u>24,388,459</u>	<u>18,449,025</u>

The company had no performance obligations for any unbilled revenue and therefore had no contract assets at the year ended 31 December 2018 (2017: €nil). Additionally there were no movement on deferred assets which occurred during the year (2017: €nil). For details on the company's contract liabilities/deferred income, see note 14.

21 Contingencies and commitments

2018	2017
€'000	€'000

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

No later than one year	23,212	14,761
Later than one year and no later than five years	189,850	64,173
Later than five years	963,847	109,404
Total	<u>1,176,909</u>	<u>188,338</u>

The company leases an office building situated at 4 Grand Canal Square, Grand Canal Harbour, Dublin 2, under non-cancellable operating lease agreements. The lease duration is 15 years, and the agreement is renewable at the end of the lease period at market rate.

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Contingencies and commitments - continued

(a) Operating lease commitments - continued

The company also leases an office building situated at 5 Grand Canal Square, Grand Canal Harbour, Dublin 2, under non-cancellable operating lease agreements. The lease duration is 15 years, and the agreement is renewable at the end of the lease period at market rate.

The rentals payable under the lease in respect of buildings is subject to re-negotiation at various intervals specified in the lease agreements. Lease payments under operating leases recognised as an expense in the year amounted to €11,850,000. A rent free portion of the leases will be released to statement of comprehensive income over the life of the leases. The deferred rent liability at 31 December 2018 is €16,682,000 (2017: €14,546,000).

The company leases an office building situated at The Beckett, East Road, Dublin 3, under non-cancellable operating lease agreements. The lease duration is 15 years, and the agreement is renewable at the end of the lease period at market rate.

The company leases an office building situated at Tyndall National Institute, Lee Maltings, Dyke Parade, Co. Cork under non-cancellable operating lease agreements. The lease duration is 5 years, and the agreement is renewable at the end of the lease period at market rate.

(b) Contingencies and guarantees

Contingent liabilities exist but are not recognised in the financial statements as it is not considered probable that an outflow of resources embodying economic benefits will be required to settle these liabilities. These contingencies relate to potential tax reassessments for years 2009 to 2018 and agreements to fund any shortfall in the 'users funds' held by Facebook Payments International Limited, a fellow group company.

In relation to the potential tax reassessments, the company will defend any and all such claims on presentation.

The company has entered into an agreement ('the agreement') with its fellow group company, Facebook Payments International Limited, which is required to safeguard 'users funds' (as defined in paragraph 1 of Regulation 29 of the EC electronic money regulations 2011). The agreement states, should Facebook Payments International Limited enter into an insolvency event as defined in the agreement, an amount equal to the relevant funds shortfall will be paid by the company into a designated bank account in the fellow group company's name to meet the requirements of the Central Bank regulations. This agreement constitutes an insurance contract under IFRS 4.

The company has further agreed to provide security to Facebook Payments International Limited for such payment in the form of a guarantee bond of US\$50,000,000 (2017: US\$20,000,000). Facebook Payments International Limited is a beneficiary of the guarantee entered into between the company as 'principal' and ACE European Group limited as 'guarantor'. Subject to the bond amount, the guarantor has agreed to guarantee to the beneficiary that if an insolvency event occurs, and the principal fails in whole or in part to make the guaranteed payments, then subject to the terms of the guarantee bond, the guarantor will pay to the beneficiary the actual loss amount. The maximum aggregate liability of the guarantor under the bond shall be the bond amount.

Cash pooling agreement

The company together with other legal entities in the Facebook group is a member of a multi-currency notional cash pooling arrangement (the arrangement) 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 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Contingencies and commitments - continued

(b) Contingencies and guarantees – continued

Cash pooling agreement – continued

As part of this arrangement, cash and cash equivalents amounting to €51.7 million (2017: €nil) which represents cash held under the cash pooling arrangement have been pledged as security against obligations of other Facebook legal entities party to the notional cash pooling arrangement. This security can only be called upon if recovery from the customer holding the obligation and recovery under the guarantee with Facebook, Inc. (see below) is not successful.

The company is a beneficiary of a guarantee given by Facebook, Inc. under the Cash Pool Agreement to guarantee amounts owed to the third party bank provider.

22 Controlling parties

At 31 December 2018, the company is a wholly-owned subsidiary of Facebook International Operations Limited, a company incorporated in the Republic of Ireland, its registered office being 4 Grand Canal Square, Grand Canal Harbour, Dublin 2.

The ultimate holding company and ultimate controlling party is Facebook, Inc., a company incorporated in Wilmington, Delaware, United States of America. The ultimate holding company and controlling party of the smallest and largest group of which the company is a member, and for which consolidated financial statements are drawn up, is Facebook, Inc.

The consolidated financial statements are available to the public and can be downloaded free of charge from the company's investor relations website, located at <http://investor.fb.com>. The Facebook website is located at www.facebook.com.

23 Subsequent events

During 2019 the company entered into a lease agreement to lease a campus located in Ballsbridge, Dublin 4.

There have been no other significant events affecting the company since year end requiring adjustment to or disclosure in the financial statements.

24 Approval of financial statements

The financial statements were approved and authorised for issue by the directors on 13 November 2019.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission File Number: 001-35551

FACEBOOK, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-1665019

(I.R.S. Employer Identification Number)

1601 Willow Road, Menlo Park, California 94025

(Address of principal executive offices and Zip Code)

(650) 543-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, \$0.000006 par value

(Title of each class)

The Nasdaq Stock Market LLC

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$486 billion based upon the closing price reported for such date on the Nasdaq Global Select Market.

On January 28, 2019, the registrant had 2,385,533,940 shares of Class A common stock and 468,455,860 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2018.

FACEBOOK, INC.
FORM 10-K
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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms "Facebook," "company," "we," "us," and "our" in this document refer to Facebook, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries. The term "Facebook" may also refer to our products, regardless of the manner in which they are accessed. For references to accessing Facebook on the "web" or via a "website," such terms refer to accessing Facebook on personal computers. For references to accessing Facebook on "mobile," such term refers to accessing Facebook via a mobile application or via a mobile-optimized version of our website such as m.facebook.com, whether on a mobile phone or tablet.

LIMITATIONS OF KEY METRICS AND OTHER DATA

The numbers for our key metrics, which include our daily active users (DAUs), monthly active users (MAUs), and average revenue per user (ARPU), are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

We regularly evaluate these metrics to estimate the number of "duplicate" and "false" accounts among our MAUs. A duplicate account is one that a user maintains in addition to his or her principal account. We divide "false" accounts into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. The estimates of duplicate and false accounts are based on an internal review of a limited sample of accounts, and we apply significant judgment in making this determination. For example, to identify duplicate accounts we use data signals such as similar IP addresses or user names, and to identify false accounts we look for names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new data signals or technologies, which may allow us to identify previously undetected duplicate or false accounts and may improve our ability to evaluate a broader population of our users. Duplicate and false accounts are very difficult to measure at our scale, and it is possible that the actual number of duplicate and false accounts may vary significantly from our estimates.

In the fourth quarter of 2018, we estimate that duplicate accounts may have represented approximately 11% of our worldwide MAUs. We believe the percentage of duplicate accounts is meaningfully higher in developing markets such as the Philippines and Vietnam, as compared to more developed markets. In the fourth quarter of 2018, we estimate that false accounts may have represented approximately 5% of our worldwide MAUs. Our estimation of false accounts can vary as a result of episodic spikes in the creation of such accounts, which we have seen originate more frequently in specific countries such as Indonesia and Vietnam. From time to time, we may make product changes or take other actions to reduce the number of duplicate or false accounts among our users, which may also reduce our DAU and MAU estimates in a particular period.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete.

In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors.

We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated. We intend to disclose our estimates of the number of duplicate and false accounts among our MAUs on an annual basis. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology.

The numbers of DAUs and MAUs discussed in this Annual Report on Form 10-K, as well as ARPU, do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook.

In addition, other user engagement metrics included herein do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

PART I

Item 1. Business

Overview

Our mission is to give people the power to build community and bring the world closer together.

Our top priority is to build useful and engaging products that enable people to connect and share with friends and family through mobile devices, personal computers, and other surfaces. We also help people discover and learn about what is going on in the world around them, enable people to share their opinions, ideas, photos and videos, and other activities with audiences ranging from their closest friends to the public at large, and stay connected everywhere by accessing our products, including:

- **Facebook.** Facebook enables people to connect, share, discover, and communicate with each other on mobile devices and personal computers. There are a number of different ways to engage with people on Facebook, including News Feed which displays an algorithmically-ranked series of stories and advertisements individualized for each person.
- **Instagram.** Instagram brings people closer to the people and things they love. It is a community for sharing photos, videos, and messages, and enables people to discover interests that they care about.
- **Messenger.** Messenger is a simple yet powerful messaging application for people to connect with friends, family, groups and businesses across platforms and devices.
- **WhatsApp.** WhatsApp is a simple, reliable and secure messaging application that is used by people and businesses around the world to communicate in a private way.
- **Oculus.** Our hardware, software, and developer ecosystem allows people around the world to come together and connect with each other through our Oculus virtual reality (VR) products.

We generate substantially all of our revenue from selling advertising placements to marketers. Our ads enable marketers to reach people based on a variety of factors including age, gender, location, interests, and behaviors. Marketers purchase ads that can appear in multiple places including on Facebook, Instagram, Messenger, and third-party applications and websites.

We are also investing in other consumer hardware products and a number of longer-term initiatives, such as connectivity efforts, artificial intelligence (AI), and augmented reality, to develop technologies that we believe will help us better serve our mission to give people the power to build community and bring the world closer together.

Competition

Our business is characterized by innovation, rapid change, and disruptive technologies. We compete with companies that sell advertising, as well as with companies that provide social, media, and communication products and services that are designed to engage users on the web, mobile devices and online generally. We face significant competition in every aspect of our business, including from companies that facilitate communication and the sharing of content and information, companies that enable marketers to display advertising, companies that distribute video and other forms of media content, and companies that provide development platforms for applications developers. We compete to attract, engage, and retain people who use our products, to attract and retain marketers, and to attract and retain developers to build compelling mobile and web applications that integrate with our products.

We also compete with the following:

- Companies that offer products across broad platforms that replicate capabilities we provide. 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.
- Companies that provide regional social networks, many of which have strong positions in particular countries.
- Traditional, online, and mobile businesses that provide media for marketers to reach their audiences and/or develop tools and systems for managing and optimizing advertising campaigns.
- Companies that develop and deliver consumer hardware and virtual reality products and services.

As we introduce or acquire new products, as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

Technology

Our product development philosophy is centered on continuous innovation in creating and improving products that are social by design, which means that our products are designed to place people and their social interactions at the core of the product experience. As our user base grows, as engagement with products like video increases, and as we deepen our investment in new technologies like AI, our computing needs continue to expand. We make significant investments in technology both to improve our existing products and services and to develop new ones, as well as for our marketers and developers. We are also investing in protecting the security and integrity of our platform by investing in both people and technology to strengthen our systems against abuse.

Sales and Operations

The majority of our marketers use our self-service ad platform to launch and manage their advertising campaigns. We also have a global sales force that is focused on attracting and retaining advertisers and providing support to them throughout the stages of the marketing cycle from pre-purchase decision-making to real-time optimizations to post-campaign analytics. We work directly with these advertisers, as well as through advertising agencies and resellers. We operate more than 60 offices around the globe, the majority of which have a sales presence. We also invest in and rely on self-service tools to provide direct customer support to our users and partners.

Marketing

To date, our communities have grown organically with people inviting their friends to connect with them, supported by internal efforts to stimulate awareness and interest. In addition, we have invested and will continue to invest in marketing our products and services to grow our brand and help build community around the world.

Intellectual Property

To establish and protect our proprietary rights, we rely on a combination of patents, trademarks, copyrights, trade secrets, including know-how, license agreements, confidentiality procedures, non-disclosure agreements with third parties, employee disclosure and invention assignment agreements, and other contractual rights. In addition, to further protect our proprietary rights, from time to time we have purchased patents and patent applications from third parties. We do not believe that our proprietary technology is dependent on any single patent or copyright or groups of related patents or copyrights. We believe the duration of our patents is adequate relative to the expected lives of our products.

Government Regulation

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business. Many of these laws and regulations are still evolving and being tested in courts, and could be interpreted in ways that could harm our business. These may involve privacy, data protection and personal information, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, product liability, taxation, economic or other trade prohibitions or sanctions, securities law compliance, and online payment services. In particular, we are subject to federal, state, and foreign laws regarding privacy and protection of people's data. Foreign data protection, privacy, content, competition, and other laws and regulations can impose different obligations or be more restrictive than those in the United States. U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices.

Proposed or new legislation and regulations could also significantly affect our business. For example, the European General Data Protection Regulation (GDPR) took effect in May 2018 and applies to all of our products and services used by people in Europe. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union that are different from those previously in place in the European Union, and includes significant penalties for non-compliance. Similarly, there are a number of legislative proposals in the European Union, the United States, at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business, such as liability for copyright infringement. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

We are and expect to continue to be the subject of investigations, inquiries, data requests, actions, and audits by government authorities and regulators in the United States, Europe, and around the world, particularly in the areas of privacy, data protection, law enforcement, consumer protection, and competition, as we continue to grow and expand our operations. We are currently, and may in the future be, subject to regulatory orders or consent decrees. Orders issued by, or inquiries or enforcement actions initiated by,

government or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), or require us to change our business practices in a manner materially adverse to our business.

Employees

As of December 31, 2018, we had 35,587 employees.

Corporate Information

We were incorporated in Delaware in July 2004. We completed our initial public offering in May 2012 and our Class A common stock is listed on The Nasdaq Global Select Market under the symbol "FB." Our principal executive offices are located at 1601 Willow Road, Menlo Park, California 94025, and our telephone number is (650) 543-4800.

Facebook, the Facebook logo, FB, the Like button, Instagram, Oculus, WhatsApp, and our other registered or common law trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of Facebook, Inc. or its affiliates. Other trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of their respective owners.

Available Information

Our website address is www.facebook.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are filed with the U.S. Securities and Exchange Commission (SEC). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information filed by us with the SEC are available free of charge on our website at investor.fb.com when such reports are available on the SEC's website. We use our investor.fb.com and newsroom.fb.com websites as well as Mark Zuckerberg's Facebook Page (<https://www.facebook.com/zuck>) as means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The contents of the websites referred to above are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Item 1A. Risk Factors

Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

If we fail to retain existing users or add new users, or if our users decrease their level of engagement with our products, our revenue, financial results, and business may be significantly harmed.

The size of our user base and our users' level of engagement are critical to our success. Our financial performance has been and will continue to be significantly determined by our success in adding, retaining, and engaging active users of our products, particularly for Facebook and Instagram. We anticipate that our active user growth rate will generally decline over time as the size of our active user base increases, and it is possible that the size of our active user base may fluctuate or decline in one or more markets, particularly in markets where we have achieved higher penetration rates. For example, in the fourth quarter of 2017, we experienced a slight decline on a quarter-over-quarter basis in the number of daily active users on Facebook in the United States & Canada region. If people do not perceive our products to be useful, reliable, and trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their engagement. A number of other social networking companies that achieved early popularity have since seen their active user bases or levels of engagement decline, in some cases precipitously. There is no guarantee that we will not experience a similar erosion of our active user base or engagement levels. Our user engagement patterns have changed over time, and user engagement can be difficult to measure, particularly as we introduce new and different products and services. Any number of factors could potentially negatively affect user retention, growth, and engagement, including if:

- users increasingly engage with other competitive products or services;
- we fail to introduce new features, products or services that users find engaging or if we introduce new products or services, or make changes to existing products and services, that are not favorably received;
- users feel that their experience is diminished as a result of the decisions we make with respect to the frequency, prominence, format, size, and quality of ads that we display;
- users have difficulty installing, updating, or otherwise accessing our products on mobile devices as a result of actions by us or third parties that we rely on to distribute our products and deliver our services;
- user behavior on any of our products changes, including decreases in the quality and frequency of content shared on our products and services;
- we are unable to continue to develop products for mobile devices that users find engaging, that work with a variety of mobile operating systems and networks, and that achieve a high level of market acceptance;
- there are decreases in user sentiment due to questions about the quality or usefulness of our products or our user data practices, or concerns related to privacy and sharing, safety, security, well-being, or other factors;
- we are unable to manage and prioritize information to ensure users are presented with content that is appropriate, interesting, useful, and relevant to them;
- we are unable to obtain or attract engaging third-party content;
- we are unable to successfully maintain or grow usage of and engagement with mobile and web applications that integrate with Facebook and our other products;
- users adopt new technologies where our products may be displaced in favor of other products or services, or may not be featured or otherwise available;
- there are changes mandated by legislation, regulatory authorities, or litigation that adversely affect our products or users;
- there is decreased engagement with our products, or failure to accept our terms of service, as part of changes that we implemented in connection with the General Data Protection Regulation (GDPR) in Europe, other similar changes that

we implemented in the United States and around the world, or other changes we may implement in the future in connection with other regulations, regulatory actions or otherwise;

- technical or other problems prevent us from delivering our products in a rapid and reliable manner or otherwise affect the user experience, such as security breaches or failure to prevent or limit spam or similar content;
- we adopt terms, policies, or procedures related to areas such as sharing, content, user data, or advertising that are perceived negatively by our users or the general public;
- we elect to focus our product decisions on longer-term initiatives that do not prioritize near-term user growth and engagement;
- we make changes in how we promote different products and services across our family of apps;
- initiatives designed to attract and retain users and engagement are unsuccessful or discontinued, whether as a result of actions by us, third parties, or otherwise;
- third-party initiatives that may enable greater use of our products, including low-cost or discounted data plans, are discontinued;
- there is decreased engagement with our products as a result of taxes imposed on the use of social media or other mobile applications in certain countries, or other actions by governments that may affect the accessibility of our products in their countries;
- we fail to provide adequate customer service to users, marketers, developers, or other partners;
- we, developers whose products are integrated with our products, or other partners and companies in our industry are the subject of adverse media reports or other negative publicity, including as a result of our or their user data practices; or
- our current or future products, such as our development tools and application programming interfaces that enable developers to build, grow, and monetize mobile and web applications, reduce user activity on our products by making it easier for our users to interact and share on third-party mobile and web applications.

If we are unable to maintain or increase our user base and user engagement, our revenue and financial results may be adversely affected. Any decrease in user retention, growth, or engagement could render our products less attractive to users, marketers, and developers, which is likely to have a material and adverse impact on our revenue, business, financial condition, and results of operations. If our active user growth rate continues to slow, we will become increasingly dependent on our ability to maintain or increase levels of user engagement and monetization in order to drive revenue growth.

We generate substantially all of our revenue from advertising. The loss of marketers, or reduction in spending by marketers, could seriously harm our business.

Substantially all of our revenue is currently generated from third parties advertising on Facebook and Instagram. As is common in the industry, our marketers do not have long-term advertising commitments with us. Many of our marketers spend only a relatively small portion of their overall advertising budget with us. Marketers will not continue to do business with us, or they will reduce the budgets they are willing to commit to us, if we do not deliver ads in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. We have recently implemented, and we may continue to implement, changes to our user data practices. Some of these changes will reduce marketers' ability to effectively target their ads, which has to some extent adversely affected, and will continue to adversely affect, our advertising business. If we are unable to provide marketers with a suitable return on investment, the pricing of our ads may not increase, or may decline, in which case our revenue and financial results may be harmed.

Our advertising revenue could also be adversely affected by a number of other factors, including:

- decreases in user engagement, including time spent on our products;
- our inability to continue to increase user access to and engagement with our products;
- product changes or inventory management decisions we may make that change the size, format, frequency, or relative prominence of ads displayed on our products or of other unpaid content shared by marketers on our products;
- our inability to maintain or increase marketer demand, the pricing of our ads, or both;

- our inability to maintain or increase the quantity or quality of ads shown to users, including as a result of technical infrastructure constraints;
- user behavior or product changes that may reduce traffic to features or products that we successfully monetize, including as a result of our efforts to promote the Stories format or increased usage of our messaging products;
- reductions of advertising by marketers due to our efforts to implement advertising policies that protect the security and integrity of our platform;
- changes to third-party policies that limit our ability to deliver or target advertising;
- the availability, accuracy, utility, and security of analytics and measurement solutions offered by us or third parties that demonstrate the value of our ads to marketers, or our ability to further improve such tools;
- loss of advertising market share to our competitors, including if prices to purchase our ads increase or if competitors offer lower priced, more integrated or otherwise more effective products;
- adverse government actions or legal developments relating to advertising, including legislative and regulatory developments and developments in litigation;
- decisions by marketers to reduce their advertising as a result of adverse media reports or other negative publicity involving us, our user data practices, our advertising metrics or tools, content on our products, developers with mobile and web applications that are integrated with our products, or other companies in our industry;
- reductions of advertising by marketers due to objectionable content published on our products by third parties, questions about our user data practices, concerns about brand safety, or uncertainty regarding their own legal and compliance obligations;
- the effectiveness of our ad targeting or degree to which users opt out of certain types of ad targeting, including as a result of product changes and controls that we implemented in connection with the GDPR, other similar changes that we implemented in the United States and around the world, or other product changes or controls we may implement in the future, whether in connection with other regulations, regulatory actions or otherwise, that impact our ability to target ads;
- the degree to which users cease or reduce the number of times they engage with our ads;
- changes in the way advertising on mobile devices or on personal computers is measured or priced;
- changes in the composition of our marketer base or our inability to maintain or grow our marketer base; and
- the impact of macroeconomic conditions, whether in the advertising industry in general, or among specific types of marketers or within particular geographies.

The occurrence of any of these or other factors could result in a reduction in demand for our ads, which may reduce the prices we receive for our ads, or cause marketers to stop advertising with us altogether, either of which would negatively affect our revenue and financial results.

Our user growth, engagement, and monetization on mobile devices depend upon effective operation with mobile operating systems, networks, technologies, products, and standards that we do not control.

The substantial majority of our revenue is generated from advertising on mobile devices. There is no guarantee that popular mobile devices will continue to feature Facebook or our other products, or that mobile device users will continue to use our products rather than competing products. We are dependent on the interoperability of Facebook and our other products with popular mobile operating systems, networks, technologies, products, and standards that we do not control, such as the Android and iOS operating systems and mobile browsers. Any changes, bugs, or technical issues in such systems, or changes in our relationships with mobile operating system partners, handset manufacturers, browser developers, or mobile carriers, or in their terms of service or policies that degrade our products' functionality, reduce or eliminate our ability to distribute our products, give preferential treatment to competitive products, limit our ability to deliver, target, or measure the effectiveness of ads, or charge fees related to the distribution of our products or our delivery of ads could adversely affect the usage of Facebook or our other products and monetization on mobile devices. For example, Apple recently released an update to its Safari browser that limits the use of third-party cookies, which reduces our ability to provide the most relevant ads to our users and impacts monetization. Additionally, in order to deliver high quality mobile products, it is important that our products work well with a range of mobile technologies, products, systems, networks, and standards that we do not control, and that we have good relationships with handset manufacturers, mobile carriers and browser developers. We may not be successful in maintaining or developing relationships with key participants in the mobile ecosystem or in developing products that operate effectively with these technologies, products, systems, networks, or standards. In the event that it is more difficult for our users to access and use Facebook or our other products on their mobile devices, or if our users choose not to access or use Facebook or our other products on their mobile devices or use mobile products that do not offer access to Facebook or our other products, our user growth and user engagement could be harmed. From time to time, we may also take actions regarding the distribution of our products or the operation of our business based on what we believe to be in our long-term best interests. Such actions may adversely affect our users and our relationships with the operators of mobile operating systems, handset manufacturers, mobile carriers, browser developers, or other business partners, and there is no assurance that these actions will result in the anticipated long-term benefits. In the event that our users are adversely affected by these actions or if our relationships with such third parties deteriorate, our user growth, engagement, and monetization could be adversely affected and our business could be harmed.

Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

We compete with companies that sell advertising, as well as with companies that provide social, media, and communication products and services that are designed to engage users on the web, mobile devices and online generally. We face significant competition in every aspect of our business, including from companies that facilitate communication and the sharing of content and information, companies that enable marketers to display advertising, companies that distribute video and other forms of media content, and companies that provide development platforms for applications developers. We compete with companies that offer products across broad platforms that replicate capabilities we provide. 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. We also compete with companies that provide regional social networks, many of which have strong positions in particular countries. Some of our competitors may be domiciled in different countries and subject to political, legal, and regulatory regimes that enable them to compete more effectively than us. In addition, we face competition from traditional, online, and mobile businesses that provide media for marketers to reach their audiences and/or develop tools and systems for managing and optimizing advertising campaigns. We also compete with companies that develop and deliver consumer hardware and virtual reality products and services.

Some of our current and potential competitors may have greater resources or stronger competitive positions in certain product segments, geographic regions, or user demographics than we do. These factors may allow our competitors to respond more effectively than us to new or emerging technologies and changes in market conditions. We believe that some users, particularly younger users, are aware of and actively engaging with other products and services similar to, or as a substitute for, Facebook products and services, and we believe that some users have reduced their use of and engagement with our products and services in favor of these other products and services. In the event that users increasingly engage with other products and services, we may experience a decline in use and engagement in key user demographics or more broadly, in which case our business would likely be harmed.

Our competitors may develop products, features, or services that are similar to ours or that achieve greater acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, developers whose mobile and web applications are integrated with Facebook or our other products may use information shared by our users through our products in order to develop products or features that compete with us. Some competitors may gain a competitive advantage against us in areas where we operate, including: by making acquisitions; by limiting our ability to deliver, target, or measure the effectiveness of ads; by imposing fees or other charges related to our delivery of ads; by making access to our products more difficult or impossible; by making it more difficult to communicate with our users; or by integrating competing platforms, applications, or features into products they control such as mobile device operating systems, search engines, browsers, or e-commerce platforms. For example, each of Apple and Google have integrated competitive products with iOS and Android, respectively. As a result, our competitors may acquire and engage users or generate advertising or other revenue at the

expense of our own efforts, which may negatively affect our business and financial results. In addition, from time to time, we may take actions in response to competitive threats, but we cannot assure you that these actions will be successful or that they will not negatively affect our business and financial results.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the popularity, usefulness, ease of use, performance, and reliability of our products compared to our competitors' products;
- the size and composition of our user base;
- the engagement of users with our products and competing products;
- the timing and market acceptance of products, including developments and enhancements to our or our competitors' products;
- our safety and security efforts and our ability to protect user data and to provide users with control over their data;
- our ability to distribute our products to new and existing users;
- our ability to monetize our products;
- the frequency, size, format, quality, and relative prominence of the ads displayed by us or our competitors;
- customer service and support efforts;
- marketing and selling efforts, including our ability to measure the effectiveness of our ads and to provide marketers with a compelling return on their investments;
- our ability to establish and maintain developers' interest in building mobile and web applications that integrate with Facebook and our other products;
- our ability to establish and maintain publisher interest in integrating their content with Facebook and our other products;
- changes mandated by legislation, regulatory authorities, or litigation, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees, particularly software engineers, designers, and product managers;
- our ability to cost-effectively manage and grow our operations; and
- our reputation and brand strength relative to those of our competitors.

If we are not able to compete effectively, our user base and level of user engagement may decrease, we may become less attractive to developers and marketers, and our revenue and results of operations may be materially and adversely affected.

Actions by governments that restrict access to Facebook or our other products in their countries, or that otherwise impair our ability to sell advertising in their countries, could substantially harm our business and financial results.

Governments of one or more countries in which we operate from time to time seek to censor content available on Facebook or our other products in their country, restrict access to our products from their country entirely, or impose other restrictions that may affect the accessibility of our products in their country for an extended period of time or indefinitely. For example, user access to Facebook and certain of our other products has been or is currently restricted in whole or in part in China, Iran, and North Korea. In addition, government authorities in other countries may seek to restrict user access to our products if they consider us to be in violation of their laws or a threat to public safety or for other reasons, and certain of our products have been restricted by governments in other countries from time to time. It is possible that government authorities could take action that impairs our ability to sell advertising, including in countries where access to our consumer-facing products may be blocked or restricted. For example, we generate meaningful revenue from a limited number of resellers representing advertisers based in China. In the event that content shown on Facebook or our other products is subject to censorship, access to our products is restricted, in whole or in part, in one or more countries, or other restrictions are imposed on our products, or our competitors are able to successfully penetrate new geographic markets or capture a greater share of existing geographic markets that we cannot access or where we face other restrictions, our ability to retain or increase our user base, user engagement, or the level of advertising by marketers may be adversely affected, we may not be able to maintain or grow our revenue as anticipated, and our financial results could be adversely affected.

Our new products and changes to existing products could fail to attract or retain users or generate revenue and profits.

Our ability to retain, increase, and engage our user base and to increase our revenue depends heavily on our ability to continue to evolve our existing products and to create successful new products, both independently and in conjunction with developers or other third parties. We may introduce significant changes to our existing products or acquire or introduce new and unproven products, including using technologies with which we have little or no prior development or operating experience. For example, we do not have significant experience with consumer hardware products or virtual or augmented reality technology, which may adversely affect our ability to successfully develop and market these products and technologies, and we will incur increased costs in connection with the development and marketing of such products and technologies. In addition, the introduction of new products, or changes to existing products, may result in new or enhanced governmental or regulatory scrutiny or other complications that could adversely affect our business and financial results. We have also invested, and expect to continue to invest, significant resources in growing our WhatsApp and Messenger products. We have historically monetized messaging in only a very limited fashion, and we may not be successful in our efforts to generate meaningful revenue from messaging over the long term. If these or other new or enhanced products fail to engage users, marketers, or developers, or if our business plans are unsuccessful, we may fail to attract or retain users or to generate sufficient revenue, operating margin, or other value to justify our investments, and our business may be adversely affected.

We make product and investment decisions that may not prioritize short-term financial results and may not produce the long-term benefits that we expect.

We frequently make product and investment decisions that may not prioritize short-term financial results if we believe that the decisions are consistent with our mission and benefit the aggregate user experience and will thereby improve our financial performance over the long term. For example, we have recently implemented, and we may continue to implement, changes to our user data practices. Some of these changes will reduce marketers' ability to effectively target their ads, which has to some extent adversely affected, and will continue to adversely affect, our advertising business. Similarly, we previously announced changes to our News Feed ranking algorithm to help our users have more meaningful interactions, and these changes have had, and we expect will continue to have, the effect of reducing time spent and some measures of user engagement with Facebook, which could adversely affect our financial results. From time to time, we may also change the size, frequency, or relative prominence of ads in order to improve ad quality and overall user experience. In addition, we have made, and we expect to continue to make, other changes to our products which may adversely affect the distribution of content of publishers, marketers, and developers, and could reduce their incentive to invest in their efforts on Facebook. We also may introduce new features or other changes to existing products, or introduce new stand-alone products, that attract users away from properties, formats, or use cases where we have more proven means of monetization. For example, we plan to continue to promote the Stories format, which is becoming increasingly popular for sharing content across our products, but our advertising efforts with this format are still under development and we do not currently monetize Stories at the same rate as News Feed. In addition, as we focus on growing users and engagement across our family of apps, it is possible that these efforts may from time to time reduce engagement with one or more products and services in favor of other products or services that we monetize less successfully or that are not growing as quickly. These decisions may adversely affect our business and results of operations and may not produce the long-term benefits that we expect.

If we are not able to maintain and enhance our brands, our ability to expand our base of users, marketers, and developers may be impaired, and our business and financial results may be harmed.

We believe that our brands have significantly contributed to the success of our business. We also believe that maintaining and enhancing our brands is critical to expanding our base of users, marketers, and developers. Many of our new users are referred by existing users. Maintaining and enhancing our brands will depend largely on our ability to continue to provide useful, reliable, trustworthy, and innovative products, which we may not do successfully. We may introduce new products or terms of service or policies that users do not like, which may negatively affect our brands. Additionally, the actions of our developers or advertisers may affect our brands if users do not have a positive experience using third-party mobile and web applications integrated with our products or interacting with parties that advertise through our products. We will also continue to experience media, legislative, or regulatory scrutiny of our actions or decisions regarding user privacy, content, advertising, and other issues, including actions or decisions in connection with elections, which may adversely affect our reputation and brands. For example, we previously announced our discovery of certain ads and other content previously displayed on our products that may be relevant to government investigations relating to Russian interference in the 2016 U.S. presidential election. In addition, in March 2018, we announced developments regarding the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies. We also may fail to respond expeditiously or appropriately to the sharing of objectionable content on our services or objectionable practices by advertisers or developers, or to otherwise address user concerns, which could erode confidence in our brands. Our brands may also be negatively affected by the actions of users that are deemed to be hostile or inappropriate to other users, by the actions of users acting under false or inauthentic identities, by the use of our products or services to disseminate information that is deemed to be misleading (or intended to manipulate opinions), by perceived or actual efforts by governments to obtain access to user information for security-related purposes or to censor certain content on our platform, or by the use of our products or services for illicit, objectionable, or illegal ends. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. Certain of our past actions, such as the foregoing matter regarding developer misuse of data, have eroded confidence in our brands, and if we fail to successfully promote and maintain our brands or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

Security breaches and improper access to or disclosure of our data or user data, or other hacking and phishing attacks on our systems, could harm our reputation and adversely affect our business.

Our industry is prone to cyber-attacks by third parties seeking unauthorized access to our data or users' data or to disrupt our ability to provide service. Any failure to prevent or mitigate security breaches and improper access to or disclosure of our data or user data, including personal information, content, or payment information from users, or information from marketers, could result in the loss or misuse of such data, which could harm our business and reputation and diminish our competitive position. In addition, computer malware, viruses, social engineering (predominantly spear phishing attacks), and general hacking have become more prevalent in our industry, have occurred on our systems in the past, and will occur on our systems in the future. We also regularly encounter attempts to create false or undesirable user accounts, purchase ads, or take other actions on our platform for purposes such as spamming, spreading misinformation, or other objectionable ends. As a result of our prominence, the size of our user base, and the types and volume of personal data on our systems, we believe that we are a particularly attractive target for such breaches and attacks. Our efforts to address undesirable activity on our platform may also increase the risk of retaliatory attacks. Such attacks may cause interruptions to the services we provide, degrade the user experience, cause users or marketers to lose confidence and trust in our products, impair our internal systems, or result in financial harm to us. Our efforts to protect our company data or the information we receive may also be unsuccessful due to software bugs or other technical malfunctions; employee, contractor, or vendor error or malfeasance; government surveillance; or other threats that evolve. In addition, third parties may attempt to fraudulently induce employees or users to disclose information in order to gain access to our data or our users' data. Cyber-attacks continue to evolve in sophistication and volume, and inherently may be difficult to detect for long periods of time. Although we have developed systems and processes that are designed to protect our data and user data, to prevent data loss, to disable undesirable accounts and activities on our platform, and to prevent or detect security breaches, we cannot assure you that such measures will provide absolute security, and we may incur significant costs in protecting against or remediating cyber-attacks.

In addition, some of our developers or other partners, such as those that help us measure the effectiveness of ads, may receive or store information provided by us or by our users through mobile or web applications integrated with Facebook. We provide limited information to such third parties based on the scope of services provided to us. However, if these third parties or developers fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our data or our users' data may be improperly accessed, used, or disclosed.

Affected users or government authorities could initiate legal or regulatory actions against us in connection with any actual or perceived security breaches or improper disclosure of data, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. Such incidents or our efforts to remediate such incidents may also result in a decline in our active user base or engagement levels. Any of these events could have a material and adverse effect on our business, reputation, or financial results.

For example, 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. While we took steps to remediate the attack, including fixing the vulnerability, resetting user access tokens and notifying affected users, we may discover and announce additional developments, which could further erode confidence in our brand. In addition, the events surrounding this cyber-attack became the subject of Irish Data Protection Commission, U.S. Federal Trade Commission and other government inquiries in the United States, Europe, and other jurisdictions. Any such inquiries could subject us to substantial fines and costs, require us to change our business practices, divert resources and the attention of management from our business, or adversely affect our business.

We anticipate that our ongoing investments in safety, security, and content review will identify additional instances of misuse of user data or other undesirable activity by third parties on our platform.

In addition to our efforts to mitigate cybersecurity risks, we are making significant investments in safety, security, and content review efforts to combat misuse of our services and user data by third parties, including investigations and audits of platform applications that previously accessed information of a large number of users of our services. As a result of these efforts we have discovered and announced, and anticipate that we will continue to discover and announce, additional incidents of misuse of user data or other undesirable activity by third parties. We may not discover all such incidents or activity, including as a result of our data limitations or the scale of activity on our platform, and we may be notified of such incidents or activity via the media or other third parties. Such incidents and activities may include the use of user data in a manner inconsistent with our terms, contracts or policies, the existence of false or undesirable user accounts, election interference, improper ad purchases, activities that threaten people's safety on- or offline, or instances of spamming, scraping, or spreading misinformation. The discovery of the foregoing may negatively affect user trust and engagement, harm our reputation and brands, require us to change our business practices in a manner adverse to our business, and adversely affect our business and financial results. Any such discoveries may also subject us to additional litigation and regulatory inquiries, which could subject us to monetary penalties and damages, divert management's time and attention, and lead to enhanced regulatory oversight.

Unfavorable media coverage could negatively affect our business.

We receive a high degree of media coverage around the world. Unfavorable publicity regarding, for example, our privacy practices, terms of service, product changes, product quality, litigation or regulatory activity, government surveillance, the actions of our advertisers, the actions of our developers whose products are integrated with our products, the use of our products or services for illicit, objectionable, or illegal ends, the substance or enforcement of our community standards, the actions of our users, the quality and integrity of content shared on our platform, or the actions of other companies that provide similar services to ours, has in the past, and could in the future, adversely affect our reputation. For example, beginning in March 2018, we were the subject of intense media coverage involving the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies, and we have continued to receive negative publicity. Such negative publicity could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business and financial results.

Our financial results will fluctuate from quarter to quarter and are difficult to predict.

Our quarterly financial results have fluctuated in the past and will fluctuate in the future. Additionally, we have a limited operating history with the current scale of our business, which makes it difficult to forecast our future results. As a result, you should not rely upon our past quarterly financial results as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- our ability to maintain and grow our user base and user engagement;
- our ability to attract and retain marketers in a particular period;
- fluctuations in spending by our marketers due to seasonality, such as historically strong spending in the fourth quarter of each year, episodic regional or global events, or other factors;
- the frequency, prominence, size, format, and quality of ads shown to users;
- the success of technologies designed to block the display of ads;
- the pricing of our ads and other products;
- the diversification and growth of revenue sources beyond advertising on Facebook and Instagram;

- our ability to generate revenue from Payments, or the sale of our consumer hardware products or other products we may introduce in the future;
- changes to existing products or services or the development and introduction of new products or services by us or our competitors;
- user behavior or product changes that may reduce traffic to features or products that we successfully monetize;
- increases in marketing, sales, and other operating expenses that we will incur to grow and expand our operations and to remain competitive, including costs related to our data centers and technical infrastructure;
- costs related to our safety, security, and content review efforts;
- costs and expenses related to the development and delivery of our consumer hardware products;
- our ability to maintain gross margins and operating margins;
- costs related to acquisitions, including costs associated with amortization and additional investments to develop the acquired technologies;
- charges associated with impairment of any assets on our balance sheet;
- our ability to obtain equipment, components, and labor for our data centers and other technical infrastructure in a timely and cost-effective manner;
- system failures or outages or government blocking, which could prevent us from serving ads for any period of time;
- breaches of security or privacy, and the costs associated with any such breaches and remediation;
- changes in the manner in which we distribute our products or inaccessibility of our products due to third-party actions;
- fees paid to third parties for content or the distribution of our products;
- share-based compensation expense, including acquisition-related expense;
- adverse litigation judgments, settlements, or other litigation-related costs;
- changes in the legislative or regulatory environment, including with respect to privacy and data protection, or actions by governments or regulators, including fines, orders, or consent decrees;
- the overall tax rate for our business, which may be affected by the mix of income we earn in the U.S. and in jurisdictions with comparatively lower tax rates, the effects of share-based compensation, the effects of integrating intellectual property from acquisitions, and the effects of changes in our business;
- the impact of changes in tax laws or judicial or regulatory interpretations of tax laws, which are recorded in the period such laws are enacted or interpretations are issued, and may significantly affect the effective tax rate of that period;
- tax obligations that may arise from resolutions of tax examinations, including the examination we are currently under by the Internal Revenue Service (IRS), that materially differ from the amounts we have anticipated;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- fluctuations in the market values of our portfolio investments and in interest rates;
- changes in U.S. generally accepted accounting principles; and
- changes in global business or macroeconomic conditions.

We expect our rates of growth to decline in the future.

We expect that our user growth rate will generally decline over time as the size of our active user base increases, and it is possible that the size of our active user base may fluctuate or decline in one or more markets, particularly as we achieve greater market penetration. We expect our revenue growth rate will continue to decline over time as our revenue increases to higher levels. As our growth rates decline, investors' perceptions of our business may be adversely affected and the trading price of our Class A common stock could decline.

Our costs are continuing to grow, which could reduce our operating margin and profitability. If our investments are not successful, our business and financial performance could be harmed.

Operating our business is costly, and we expect our expenses to continue to increase in the future as we broaden our user base, as users increase the amount and types of content they consume and the data they share with us, for example with respect to video, as we develop and implement new products, as we market new and existing products and promote our brands, as we continue to expand our technical infrastructure, as we continue to invest in new and unproven technologies, and as we continue to hire additional employees and contractors to support our expanding operations, including our efforts to focus on safety, security, and content review. We will continue to invest in our messaging, video content, and global connectivity efforts, as well as other initiatives that may not have clear paths to monetization. In addition, we will incur increased costs in connection with the development and marketing of our consumer hardware and virtual and augmented reality products and technologies. Any such investments may not be successful, and any such increases in our costs may reduce our operating margin and profitability. In addition, if our investments are not successful, our ability to grow revenue will be harmed, which could adversely affect our business and financial performance.

Given our levels of share-based compensation, our tax rate may vary significantly depending on our stock price.

The tax effects of the accounting for share-based compensation may significantly impact our effective tax rate from period to period. In periods in which our stock price is higher than the grant price of the share-based compensation vesting in that period, we will recognize excess tax benefits that will decrease our effective tax rate. For example, in 2018, excess tax benefits recognized from share-based compensation decreased our provision for income taxes by \$717 million and our effective tax rate by approximately three percentage points as compared to the tax rate without such benefits. In future periods in which our stock price is lower than the grant price of the share-based compensation vesting in that period, our effective tax rate may increase. The amount and value of share-based compensation issued relative to our earnings in a particular period will also affect the magnitude of the impact of share-based compensation on our effective tax rate. These tax effects are dependent on our stock price, which we do not control, and a decline in our stock price could significantly increase our effective tax rate and adversely affect our financial results.

Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, content, competition, consumer protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including privacy, data protection and personal information, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, product liability, taxation, economic or other trade prohibitions or sanctions, securities law compliance, and online payment services. The introduction of new products, expansion of our activities in certain jurisdictions, or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. In addition, foreign data protection, privacy, content, competition, and other laws and regulations can impose different obligations or be more restrictive than those in the United States.

These U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For example, regulatory or legislative actions affecting the manner in which we display content to our users or obtain consent to various practices could adversely affect user growth and engagement. Such actions could affect the manner in which we provide our services or adversely affect our financial results.

We are also subject to laws and regulations that dictate whether, how, and under what circumstances we can transfer, process and/or receive certain data that is critical to our operations, including data shared between countries or regions in which we operate and data shared among our products and services. For example, in 2016, the European Union and United States agreed to an alternative transfer framework for data transferred from the European Union to the United States, called the Privacy Shield, but this new framework is subject to an annual review that could result in changes to our obligations and also is subject to challenge by regulators and private parties. In addition, the other bases upon which Facebook relies to legitimize the transfer of such data, such as Standard Contractual Clauses (SCCs), have been subjected to regulatory and judicial scrutiny. For example, the Irish Data Protection Commissioner has challenged the legal grounds for transfers of user data to Facebook, Inc., and the Irish High Court has referred this challenge to the Court of Justice of the European Union for decision. We have also been managing investigations and lawsuits in Europe, India, and other jurisdictions regarding the August 2016 update to WhatsApp's terms of service and privacy policy and its sharing of certain data with other Facebook products and services, including a lawsuit currently pending before the Supreme Court of India. If one or more of the legal bases for transferring data from Europe to the United States is invalidated, if we are unable to transfer data between and among countries and regions in which we operate, or if we are restricted from sharing data among our products and services, it could affect the manner in which we provide our services or our ability to target ads, which could adversely affect our financial results.

Proposed or new legislation and regulations could also significantly affect our business. For example, the European General Data Protection Regulation (GDPR) took effect in May 2018 and applies to all of our products and services used by people in Europe. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union that are different from those previously in place in the European Union. As a result, we implemented measures to change our service for minors under the age of 16 for certain countries in Europe that maintain the minimum age of 16 under the GDPR. We also obtain consent and/or offer new controls to existing and new users in Europe before processing data for certain aspects of our service. In addition, the GDPR requires submission of breach notifications to our designated European privacy regulator, the Irish Data Protection Commissioner, and includes significant penalties for non-compliance with the notification obligation as well as other requirements of the regulation. The California Consumer Privacy Act, or AB 375, was also recently passed and creates new data privacy rights for users, effective in 2020. Similarly, there are a number of legislative proposals in the European Union, the United States, at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

These laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with and may delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

We have been subject to regulatory and other government investigations, enforcement actions, and settlements, and we expect to continue to be subject to such proceedings and other inquiries in the future, which could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

From time to time, we receive formal and informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, many of which are evolving and subject to interpretation. We are and expect to continue to be the subject of investigations, inquiries, data requests, actions, and audits in the United States, Europe, and around the world, particularly in the areas of privacy, data protection, law enforcement, consumer protection, and competition, as we continue to grow and expand our operations. In addition, we are currently, and may in the future be, subject to regulatory orders or consent decrees. For example, data protection and consumer protection authorities in the European Union have initiated actions, investigations, or administrative orders seeking to restrict the ways in which we collect and use information, or impose sanctions, and other authorities may do the same. In addition, beginning in March 2018, we became subject to U.S. Federal Trade Commission, Securities and Exchange Commission, state attorneys general, and other government inquiries in the United States, Europe, and other jurisdictions in connection with our platform and user data practices as well as the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies. Beginning in September 2018, we also became subject to Irish Data Protection Commission, U.S. Federal Trade Commission and other government inquiries in the United States, Europe, and other jurisdictions in connection with a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens and access certain profile information from user accounts on Facebook. Orders issued by, or inquiries or enforcement actions initiated by, government or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), or require us to change our business practices in a manner materially adverse to our business.

If we are unable to protect our intellectual property, the value of our brands and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality, assignment, and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, copyright, patent, trade secret, and domain name protection laws, to protect our proprietary rights. In the United States and internationally, we have filed various applications for protection of certain aspects of our intellectual property, and we currently hold a significant number of registered trademarks and issued patents in multiple jurisdictions and have acquired patents and patent applications from third parties. Third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have generally taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. In addition, we regularly contribute software source code under open source licenses and have made other technology we developed available under other open licenses, and we include open source software in our products. For example, we have contributed certain specifications and designs related to our data center equipment to the Open Compute Project Foundation, a non-profit entity that shares and develops such information with the technology community, under the Open Web Foundation License. As a result of our open source contributions and the use of open source in our products, we may license or be required to license or disclose code and/or innovations that turn out to be material to our business and may also be exposed to increased litigation risk. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brands and other intangible assets may be diminished and competitors may be able to more effectively mimic our products, services, and methods of operations. Any of these events could have an adverse effect on our business and financial results.

We are currently, and expect to be in the future, party to patent lawsuits and other intellectual property rights claims that are expensive and time consuming and, if resolved adversely, could have a significant impact on our business, financial condition, or results of operations.

Companies in the Internet, technology, and media industries own large numbers of patents, copyrights, trademarks, and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various "non-practicing entities" that own patents and other intellectual property rights often attempt to aggressively assert their rights in order to extract value from technology companies. Furthermore, from time to time we may introduce or acquire new products, including in areas where we historically have not competed, which could increase our exposure to patent and other intellectual property claims from competitors and non-practicing entities.

From time to time, we receive notice from patent holders and other parties alleging that certain of our products and services, or user content, infringe their intellectual property rights. We presently are involved in a number of intellectual property lawsuits, and as we face increasing competition and gain an increasingly high profile, we expect the number of patent and other intellectual property claims against us to grow. Defending patent and other intellectual property litigation is costly and can impose a significant burden on management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third party's rights, which may not be available on reasonable terms, or at all, and may significantly increase our operating costs and expenses. As a result, we may also be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative non-infringing technology or practices could require significant effort and expense or may not be feasible. Our business, financial condition, and results of operations could be adversely affected as a result of an unfavorable resolution of the disputes and litigation referred to above.

We are involved in numerous class action lawsuits and other litigation matters that are expensive and time consuming, and, if resolved adversely, could harm our business, financial condition, or results of operations.

In addition to intellectual property claims, we are also involved in numerous other lawsuits, including putative class action lawsuits, many of which claim statutory damages and/or seek significant changes to our business operations, and we anticipate that we will continue to be a target for numerous lawsuits in the future. Because of the scale of our user base, the plaintiffs in class action cases filed against us typically claim enormous monetary damages even if the alleged per-user harm is small or non-existent. In addition, we may be subject to additional class action lawsuits based on employment claims, product performance or other claims related to the use of consumer hardware and software, as well as virtual reality technology and products, which are new and unproven.

For example, we are currently the subject of multiple putative class action suits in connection with our platform and user data practices and the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies, the disclosure of our earnings results for the second quarter of 2018, and a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens and access certain profile information from user accounts on Facebook. We believe these lawsuits are without merit and are vigorously defending them. Any negative outcome from any such lawsuits could result in payments of substantial monetary damages or fines, or undesirable changes to our products or business practices, and accordingly our business, financial condition, or results of operations could be materially and adversely affected. Although the results of such lawsuits and claims cannot be predicted with certainty, we do not believe that the final outcome of those matters relating to our products that we currently face will have a material adverse effect on our business, financial condition, or results of operations.

There can be no assurances that a favorable final outcome will be obtained in all our cases, and defending any lawsuit is costly and can impose a significant burden on management and employees. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, which could adversely affect our business, financial conditions, or results of operations.

We may incur liability as a result of information retrieved from or transmitted over the Internet or published using our products or as a result of claims related to our products.

We have faced, currently face, and will continue to face claims relating to information that is published or made available on our products. In particular, the nature of our business exposes us to claims related to defamation, dissemination of misinformation or news hoaxes, discrimination, intellectual property rights, rights of publicity and privacy, personal injury torts, or laws regulating hate speech or other types of content. This risk is enhanced in certain jurisdictions outside the United States where our protection from liability for third-party actions may be unclear or where we may be less protected under local laws than we are in the United States. For example, there have been recent legislative proposals in the European Union that could expose online platforms to liability for copyright infringement. In addition, there have been various Congressional efforts to restrict the scope of the protections available to online platforms under Section 230 of the Communications Decency Act, and our current protections from liability for third-party content in the United States could decrease or change. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. We could also face fines or orders restricting or blocking our services in particular geographies as a result of content hosted on our services. For example, recently enacted legislation in Germany may result in the imposition of significant fines for failure to comply with certain content removal and disclosure obligations, and other countries are considering or have implemented similar legislation imposing penalties for failure to remove content. If any of these events occur, our business and financial results could be adversely affected.

Our CEO has control over key decision making as a result of his control of a majority of the voting power of our outstanding capital stock.

Mark Zuckerberg, our founder, Chairman, and CEO, is able to exercise voting rights with respect to a majority of the voting power of our outstanding capital stock and therefore has the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock, which has limited voting power relative to the Class B common stock, and might harm the trading price of our Class A common stock. In addition, Mr. Zuckerberg has the ability to control the management and major strategic investments of our company as a result of his position as our CEO and his ability to control the election or replacement of our directors. In the event of his death, the shares of our capital stock that Mr. Zuckerberg owns will be transferred to the persons or entities that he has designated. As a board member and officer, Mr. Zuckerberg owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Zuckerberg is entitled to vote his shares, and shares over which he has voting control as governed by a voting agreement, in his own interests, which may not always be in the interests of our stockholders generally.

We plan to continue to make acquisitions, which could harm our financial condition or results of operations and may adversely affect the price of our common stock.

As part of our business strategy, we have made and intend to continue to make acquisitions to add specialized employees and complementary companies, products, or technologies. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. In some cases, the costs of such acquisitions may be substantial, and there is no assurance that we will receive a favorable return on investment for our acquisitions.

We may pay substantial amounts of cash or incur debt to pay for acquisitions, which could adversely affect our liquidity. The incurrence of indebtedness would also result in increased fixed obligations and increased interest expense, and could also include covenants or other restrictions that would impede our ability to manage our operations. We may also issue equity securities to pay for acquisitions and we regularly grant RSUs to retain the employees of acquired companies, which could increase our expenses, adversely affect our financial results, and result in dilution to our stockholders. In addition, any acquisitions we announce could be viewed negatively by users, marketers, developers, or investors, which may adversely affect our business or the price of our Class A common stock.

We may also discover liabilities or deficiencies associated with the companies or assets we acquire that were not identified in advance, which may result in significant unanticipated costs. The effectiveness of our due diligence review and our ability to evaluate the results of such due diligence are dependent upon the accuracy and completeness of statements and disclosures made or actions taken by the companies we acquire or their representatives, as well as the limited amount of time in which acquisitions are executed. In addition, we may fail to accurately forecast the financial impact of an acquisition transaction, including tax and accounting charges. Acquisitions may also result in our recording of significant additional expenses to our results of operations and recording of substantial finite-lived intangible assets on our balance sheet upon closing. Any of these factors may adversely affect our financial condition or results of operations.

We may not be able to successfully integrate our acquisitions, and we may incur significant costs to integrate and support the companies we acquire.

The integration of acquisitions requires significant time and resources, and we may not manage these processes successfully. Our ability to successfully integrate complex acquisitions is unproven, particularly with respect to companies that have significant operations or that develop products where we do not have prior experience. For example, the technology and products we acquired from Oculus were relatively new to Facebook at the time of the acquisition, and we did not have significant experience with, or structure in place to support, such technology and products prior to the acquisition. We continue to make substantial investments of resources to support our acquisitions, which will result in significant ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. If we fail to successfully integrate the companies we acquire, we may not realize the benefits expected from the transaction and our business may be harmed.

If our goodwill or finite-lived intangible assets become impaired, we may be required to record a significant charge to earnings.

We review our finite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, such as a decline in stock price and market capitalization. We test goodwill for impairment at least annually. If such goodwill or finite-lived intangible assets are deemed to be impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or finite-lived intangible assets is determined, which would negatively affect our results of operations.

Our business is dependent on our ability to maintain and scale our technical infrastructure, and any significant disruption in our service could damage our reputation, result in a potential loss of users and engagement, and adversely affect our financial results.

Our reputation and ability to attract, retain, and serve our users is dependent upon the reliable performance of our products and our underlying technical infrastructure. We have in the past experienced, and may in the future experience, interruptions in the availability or performance of our products from time to time. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be harmful to our business. If our products are unavailable when users attempt to access them, or if they do not load as quickly as expected, users may not use our products as often in the future, or at all, and our ability to serve ads may be disrupted. As the amount and types of information shared on Facebook and our other products continue to grow and evolve, as the usage patterns of our global community continue to evolve, and as our internal operational demands continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy our needs. It is possible that we may fail to continue to effectively scale and grow our technical infrastructure to accommodate these increased demands, which may adversely affect our user engagement and advertising revenue growth. In addition, our business may be subject to interruptions, delays, or failures resulting from earthquakes, adverse weather conditions, other natural disasters, power loss, terrorism, geopolitical conflict, cyber-attacks, or other catastrophic events. If such an event were to occur, users may be subject to service disruptions or outages and we may not be able to recover our technical infrastructure and user data in a timely manner to restart or provide our services, which may adversely affect our financial results.

A substantial portion of our network infrastructure is provided by third parties. Any disruption or failure in the services we receive from these providers could harm our ability to handle existing or increased traffic and could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide.

We could experience unforeseen difficulties in building and operating key portions of our technical infrastructure.

We have designed and built our own data centers and key portions of our technical infrastructure through which we serve our products, and we plan to continue to significantly expand the size of our infrastructure primarily through data centers and other projects. The infrastructure expansion we are undertaking is complex and involves projects in multiple locations, and unanticipated delays in the completion of these projects, including due to any shortage of labor necessary in building portions of such projects, or availability of components, may lead to increased project costs, operational inefficiencies, or interruptions in the delivery or degradation of the quality of our products. In addition, there may be issues related to this infrastructure that are not identified during the testing phases of design and implementation, which may only become evident after we have started to fully utilize the underlying equipment, that could further degrade the user experience or increase our costs.

Our products and internal systems rely on software that is highly technical, and if it contains undetected errors or vulnerabilities, our business could be adversely affected.

Our products and internal systems rely on software, including software developed or maintained internally and/or by third parties, that is highly technical and complex. In addition, our products and internal systems depend on the ability of such software to store, retrieve, process, and manage immense amounts of data. The software on which we rely has contained, and will in the future contain, undetected errors, bugs, or vulnerabilities. Some errors may only be discovered after the code has been released for external or internal use. For example, 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 and access certain profile information from user accounts on Facebook. Errors, vulnerabilities, or other design defects within the software on which we rely have in the past, and may in the future, result in a negative experience for users and marketers who use our products, delay product introductions or enhancements, result in targeting, measurement, or billing errors, compromise our ability to protect the data of our users and/or our intellectual property or lead to reductions in our ability to provide some or all of our services. In addition, any errors, bugs, vulnerabilities, or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, could result in damage to our reputation, loss of users, loss of revenue, or liability for damages, any of which could adversely affect our business and financial results.

Technologies have been developed that can block the display of our ads, which could adversely affect our financial results.

Technologies have been developed, and will likely continue to be developed, that can block the display of our ads or block our ad measurement tools, particularly for advertising displayed on personal computers. We generate substantially all of our revenue from advertising, including revenue resulting from the display of ads on personal computers. Revenue generated from the display of ads on personal computers has been impacted by these technologies from time to time. As a result, these technologies have had an adverse effect on our financial results and, if such technologies continue to proliferate, in particular with respect to mobile platforms, our future financial results may be harmed.

Real or perceived inaccuracies in our user and other metrics may harm our reputation and negatively affect our business.

The numbers for our key metrics, which include our DAUs, MAUs, and average revenue per user (ARPU), are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

We regularly evaluate these metrics to estimate the number of "duplicate" and "false" accounts among our MAUs. A duplicate account is one that a user maintains in addition to his or her principal account. We divide "false" accounts into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. The estimates of duplicate and false accounts are based on an internal review of a limited sample of accounts, and we apply significant judgment in making this determination. For example, to identify duplicate accounts we use data signals such as similar IP addresses or user names, and to identify false accounts we look for names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new data signals or technologies, which may allow us to identify previously undetected duplicate or false accounts and may improve our ability to evaluate a broader population of our users. Duplicate and false accounts are very difficult to measure at our scale, and it is possible that the actual number of duplicate and false accounts may vary significantly from our estimates.

In the fourth quarter of 2018, we estimate that duplicate accounts may have represented approximately 11% of our worldwide MAUs. We believe the percentage of duplicate accounts is meaningfully higher in developing markets such as the Philippines and Vietnam, as compared to more developed markets. In the fourth quarter of 2018, we estimate that false accounts may have represented approximately 5% of our worldwide MAUs. Our estimation of false accounts can vary as a result of episodic spikes in the creation

of such accounts, which we have seen originate more frequently in specific countries such as Indonesia and Vietnam. From time to time, we may make product changes or take other actions to reduce the number of duplicate or false accounts among our users, which may also reduce our DAU and MAU estimates in a particular period.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete.

In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors. We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated. We intend to disclose our estimates of the number of duplicate and false accounts among our MAUs on an annual basis. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology.

In addition, from time to time we provide, or rely on, certain other metrics, including those relating to the reach and effectiveness of our ads. All of our metrics are subject to software bugs, inconsistencies in our systems, and human error. If marketers, developers, or investors do not perceive our metrics to be accurate, or if we discover material inaccuracies in our metrics, we may be subject to liability, our reputation may be harmed, and marketers and developers may be less willing to allocate their budgets or resources to Facebook, which could negatively affect our business and financial results.

We cannot assure you that we will effectively manage our growth.

Our employee headcount and the scope and complexity of our business have increased significantly, with the number of employees increasing to 35,587 as of December 31, 2018 from 25,105 as of December 31, 2017, and we expect such headcount growth to continue for the foreseeable future. In addition, we plan to continue to hire a number of employees and contractors in order to address various safety, security, and content review initiatives. The growth and expansion of our business and products create significant challenges for our management, operational, and financial resources, including managing multiple relationships with users, marketers, developers, and other third parties. As our operations and the number of our third-party relationships continue to grow, our information technology systems or our internal controls and procedures may not be adequate to support such growth. In addition, some members of our management do not have significant experience managing a large global business operation, so our management may not be able to manage such growth effectively. To effectively manage our growth, we must continue to improve our operational, financial, and management processes and systems and to effectively expand, train, and manage our personnel. As our organization continues to grow, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the benefits of our corporate culture, including our ability to quickly develop and launch new and innovative products. This could negatively affect our business performance.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our key personnel, including Mark Zuckerberg and Sheryl K. Sandberg. Although we have entered into employment agreements with Mr. Zuckerberg and Ms. Sandberg, the agreements have no specific duration and constitute at-will employment. In addition, many of our key technologies and systems are custom-made for our business by our personnel. The loss of key personnel, including members of management as well as key engineering, product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business.

As we continue to grow, we cannot guarantee we will continue to attract and retain the personnel we need to maintain our competitive position. In particular, we intend to continue to hire a significant number of technical personnel in the foreseeable future, and we expect to continue to face significant competition from other companies in hiring such personnel, particularly in the San Francisco Bay Area, where our headquarters are located and where the cost of living is high. As we continue to mature, the incentives to attract, retain, and motivate employees provided by our equity awards or by future arrangements may not be as effective as in the past, and if we issue significant equity to attract additional employees or to retain our existing employees, we would incur substantial additional share-based compensation expense and the ownership of our existing stockholders would be further diluted. Our ability to attract, retain, and motivate employees may also be adversely affected by stock price volatility. As a result of these factors, it may be difficult for us to continue to retain and motivate our employees. If we do not succeed in attracting, hiring, and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

We may not be able to continue to successfully maintain or grow usage of and engagement with mobile and web applications that integrate with Facebook and our other products.

We have made and are continuing to make investments to enable developers to build, grow, and monetize mobile and web applications that integrate with Facebook and our other products. Such existing and prospective developers may not be successful in building, growing, or monetizing mobile and/or web applications that create and maintain user engagement. Additionally, developers may choose to build on other platforms, including mobile platforms controlled by third parties, rather than building products that integrate with Facebook and our other products. We are continuously seeking to balance the distribution objectives of our developers with our desire to provide an optimal user experience, and we may not be successful in achieving a balance that continues to attract and retain such developers. For example, from time to time, we have taken actions to reduce the volume of communications from these developers to users on Facebook and our other products with the objective of enhancing the user experience, and such actions have reduced distribution from, user engagement with, and our monetization opportunities from, mobile and web applications integrated with our products. In addition, as part of our investment in safety and security, we are conducting investigations and audits of a large number of platform applications, and we also recently announced several product changes that restrict developer access to certain user data. In some instances, these actions, as well as other actions to enforce our policies applicable to developers, have adversely affected, or will adversely affect, our relationships with developers. If we are not successful in our efforts to maintain or grow the number of developers that choose to build products that integrate with Facebook and our other products or if we are unable to continue to build and maintain good relations with such developers, our user growth and user engagement and our financial results may be adversely affected.

Payment transactions may subject us to additional regulatory requirements and other risks that could be costly and difficult to comply with or that could harm our business.

Our users can purchase virtual and digital goods from developers that offer applications using our Payments infrastructure on the Facebook website. In addition, certain of our users can use our Payments infrastructure, including on Messenger, for other activities, such as sending money to other users and making donations to certain charitable organizations. We are subject to a variety of laws and regulations in the United States, Europe, and elsewhere, including those governing anti-money laundering and counter-terrorist financing, money transmission, gift cards and other prepaid access instruments, electronic funds transfer, charitable fundraising, and import and export restrictions. Depending on how our Payments product evolves, we may also be subject to other laws and regulations including those governing gambling, banking, and lending. In some jurisdictions, the application or interpretation of these laws and regulations is not clear. To increase flexibility in how our use of Payments may evolve and to mitigate regulatory uncertainty, we have received certain money transmitter licenses in the United States and an Electronic Money (E-Money) license that allows us to conduct certain regulated payment activities in the participating member countries of the European Economic Area, which will generally require us to demonstrate compliance with many domestic and foreign laws in these areas. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. In the event that we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties such as a cease and desist order, or we may be required to make product changes, any of which could have an adverse effect on our business and financial results.

In addition, we may be subject to a variety of additional risks as a result of Payments transactions, including: increased costs and diversion of management time and effort and other resources to deal with bad transactions or customer disputes; potential fraudulent or otherwise illegal activity by users, developers, employees, or third parties; restrictions on the investment of consumer funds used to transact Payments; and additional disclosure and reporting requirements. We also intend to launch certain payments functionality on WhatsApp, which may subject us to many of the foregoing risks.

We have significant international operations and plan to continue expanding our operations abroad where we have more limited operating experience, and this may subject us to increased business and economic risks that could affect our financial results.

We have significant international operations and plan to continue the international expansion of our business operations and the translation of our products. We currently make Facebook available in more than 100 different languages, and we have offices or data centers in more than 30 different countries. We may enter new international markets where we have limited or no experience in marketing, selling, and deploying our products. Our products are generally available globally, but some or all of our products or functionality may not be available in certain markets due to legal and regulatory complexities. For example, Facebook and certain of our other products are not generally available in China. We also outsource certain operational functions to third-party vendors globally. If we fail to deploy, manage, or oversee our international operations successfully, our business may suffer. In addition, we are subject to a variety of risks inherent in doing business internationally, including:

- political, social, or economic instability;
- risks related to legal, regulatory, and other government scrutiny applicable to U.S. companies with sales and operations in foreign jurisdictions, including with respect to privacy, tax, law enforcement, content, trade compliance, intellectual

property, and terrestrial infrastructure matters;

- potential damage to our brand and reputation due to compliance with local laws, including potential censorship or requirements to provide user information to local authorities;
- enhanced difficulty in reviewing content on our platform and enforcing our community standards across different languages and countries;
- fluctuations in currency exchange rates and compliance with currency controls;
- foreign exchange controls and tax and other regulations and orders that might prevent us from repatriating cash earned in countries outside the United States or otherwise limit our ability to move cash freely, and impede our ability to invest such cash efficiently;
- higher levels of credit risk and payment fraud;
- enhanced difficulties of integrating any foreign acquisitions;
- burdens of complying with a variety of foreign laws, including laws related to taxation, content removal, data localization, and regulatory oversight;
- reduced protection for intellectual property rights in some countries;
- difficulties in staffing, managing, and overseeing global operations and the increased travel, infrastructure, and legal compliance costs associated with multiple international locations;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar laws in other jurisdictions;
- compliance with statutory equity requirements and management of tax consequences; and
- geopolitical events affecting us, our marketers or our industry, including trade disputes.

If we are unable to expand internationally and manage the complexity of our global operations successfully, our financial results could be adversely affected.

We face design, manufacturing, and supply chain risks that, if not properly managed, could adversely impact our financial results.

We face a number of risks related to design, manufacturing, and supply chain management with respect to our consumer hardware products. For example, the consumer hardware products we sell may have quality issues resulting from the design or manufacture of the products, or from the software used in the products. Sometimes, these issues may be caused by components we purchase from other manufacturers or suppliers. If the quality of our consumer hardware products does not meet our customers' expectations or such products are found to be defective, then our brand and financial results could be adversely affected.

We rely on third parties to manufacture and manage the logistics of transporting and distributing our consumer hardware products. We may experience supply shortages or other disruptions in logistics or the supply chain in the future that could result in shipping delays and negatively impact our operations. We could be negatively affected if we are not able to engage third parties with the necessary capabilities or capacity on reasonable terms, or if those we engage with fail to meet their obligations (whether due to financial difficulties or other reasons), or make adverse changes in the pricing or other material terms of such arrangements with them.

We also require the suppliers and business partners of our consumer hardware products to comply with laws and certain company policies regarding sourcing practices and standards on labor, health and safety, the environment, and business ethics, but we do not control them or their practices and standards. If any of them violates laws, fails to implement changes in accordance with newly enacted laws, or implements practices or standards regarded as unethical, corrupt, or non-compliant, we could experience supply chain disruptions, government action or fines, canceled orders, or damage to our reputation.

We may face inventory risk with respect to our consumer hardware products.

We may be exposed to inventory risks with respect to our consumer hardware products as a result of rapid changes in product cycles and pricing, unsafe or defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our consumer hardware products, and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking consumer hardware products we may sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new consumer hardware product, it may be difficult to establish vendor relationships, determine appropriate product

or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. Any one of these factors may adversely affect our operating results.

We may have exposure to greater than anticipated tax liabilities.

Our tax obligations, including income and non-income taxes, are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we operate our business, develop, value, manage, protect, and use our intellectual property, and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions are aggressively interpreting their laws in new ways in an effort to raise additional tax revenue from companies such as Facebook. We are subject to regular review and audit by U.S. federal, state, and foreign tax authorities. Tax authorities may disagree with certain positions we have taken, including our methodologies for valuing developed technology or intercompany arrangements, and any adverse outcome of such a review or audit could increase our worldwide effective tax rate, increase the amount of non-income taxes imposed on our business, and harm our financial position, results of operations, and cash flows. For example, in 2016 and 2018, the IRS issued formal assessments relating to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 through 2013 tax years. Although we disagree with the IRS's position and are contesting this issue, the ultimate resolution is uncertain and, if resolved in a manner unfavorable to us, may adversely affect our financial results.

The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Our provision for income taxes is determined by the manner in which we operate our business, and any changes to such operations or laws applicable to such operations may affect our effective tax rate. Although we believe that our provision for income taxes and estimates of our non-income tax liabilities are reasonable, the ultimate settlement may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Our future income tax rates could be volatile and difficult to predict due to changes in jurisdictional profit split, changes in the amount and recognition of deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles.

Changes in tax laws or tax rulings could materially affect our financial position, results of operations, and cash flows.

The tax regimes we are subject to or operate under, including income and non-income taxes, are unsettled and may be subject to significant change. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position, results of operations, and cash flows. For example, the 2017 Tax Cuts and Jobs Act (Tax Act) enacted in December 2017 had a significant impact on our tax obligations and effective tax rate for the fourth quarter of 2017, and the issuance of additional regulatory or accounting guidance related to the Tax Act could materially affect our tax obligations and effective tax rate in the period issued. In addition, the Ninth Circuit Court of Appeals is expected to issue a decision in *Altera Corp. v. Commissioner* regarding the treatment of share-based compensation expense in a cost sharing arrangement, which could have a material effect on our tax obligations and effective tax rate for the quarter in which the decision is issued. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in many countries where we do business or require us to change the manner in which we operate our business.

The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Shifting Project, and issued a report in 2015, an interim report in 2018, and is expected to continue to issue guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. Similarly, the European Commission and several countries have issued proposals that would change various aspects of the current tax framework under which we are taxed. These proposals include changes to the existing framework to calculate income tax, as well as proposals to change or impose new types of non-income taxes, including taxes based on a percentage of revenue. For example, the United Kingdom, Spain, Italy, and France have each proposed taxes applicable to digital services, which includes business activities on social media platforms and online marketplaces, and would likely apply to our business.

The European Commission has conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including Ireland, have provided illegal state aid in certain cases. These investigations may result in changes to the tax treatment of our foreign operations.

Due to the large and expanding scale of our international business activities, many of these types of changes to the taxation of our activities described above could increase our worldwide effective tax rate, increase the amount of non-income taxes imposed on our business, and harm our financial position, results of operations, and cash flows. Such changes may also apply retroactively to our historical operations and result in taxes greater than the amounts estimated and recorded in our financial statements.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and will diminish our cash reserves.

Although our board of directors has authorized a share repurchase program that commenced in 2017 and does not have an expiration date, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares of our Class A common stock. We cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our stock and increase volatility, and any announcement of a termination of this program may result in a decrease in the trading price of our stock. In addition, this program will diminish our cash reserves.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock has been and will likely continue to be volatile.

The trading price of our Class A common stock has been, and is likely to continue to be, volatile. Since shares of our Class A common stock were sold in our initial public offering in May 2012 at a price of \$38.00 per share, our stock price has ranged from \$17.55 to \$218.62 through December 31, 2018. In addition to the factors discussed in this Annual Report on Form 10-K, the trading price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- additional shares of our stock being sold into the market by us, our existing stockholders, or in connection with acquisitions, or the anticipation of such sales;
- investor sentiment with respect to our competitors, our business partners, and our industry in general;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- announcements by us or estimates by third parties of actual or anticipated changes in the size of our user base, the level of user engagement, or the effectiveness of our ad products;
- changes in operating performance and stock market valuations of technology companies in our industry, including our developers and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- the inclusion, exclusion, or deletion of our stock from any trading indices, such as the S&P 500 Index;
- media coverage of our business and financial performance;
- lawsuits threatened or filed against us, or developments in pending lawsuits;
- developments in anticipated or new legislation or regulatory actions, including interim or final rulings by tax, judicial, or regulatory bodies;
- trading activity in our share repurchase program; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. We are currently subject to securities litigation in connection with our platform and user data practices and the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies, as well as the disclosure of our earnings results for the second quarter of 2018. We may experience more such litigation following future periods of volatility. Any securities litigation could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

We do not intend to pay cash dividends for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business and fund our share repurchase program, and we do not expect to declare or pay any cash dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Class A common stock if the trading price of your shares increases.

The dual class structure of our common stock and a voting agreement between certain stockholders have the effect of concentrating voting control with our CEO and certain other holders of our Class B common stock; this will limit or preclude your ability to influence corporate matters.

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including certain of our executive officers, employees, and directors and their affiliates, together hold a substantial majority of the voting power of our outstanding capital stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future.

Transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning or charitable purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Zuckerberg retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, continue to control a majority of the combined voting power of our outstanding capital stock.

Our status as a "controlled company" could make our Class A common stock less attractive to some investors or otherwise harm our stock price.

Because we qualify as a "controlled company" under the corporate governance rules for Nasdaq-listed companies, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors determined not to have a separate and independent nominating function and chose to have the full board of directors be directly responsible for nominating members of our board, and in the future we could elect not to have a majority of our board of directors be independent or not to have a compensation committee. Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance rules for Nasdaq-listed companies. Our status as a controlled company could make our Class A common stock less attractive to some investors or otherwise harm our stock price.

Delaware law and provisions in our restated certificate of incorporation and bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the trading price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our current restated certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- until the first date on which the outstanding shares of our Class B common stock represent less than 35% of the combined voting power of our common stock, any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class;
- we currently have a dual class common stock structure, which provides Mr. Zuckerberg with the ability to control the outcome of matters requiring stockholder approval, even if he owns significantly less than a majority of the shares of our outstanding Class A and Class B common stock;
- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of common stock, certain amendments to our restated certificate of incorporation or bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock;
- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, vacancies on our board of directors will be able to be filled only by our board of directors and

not by stockholders;

- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our board of directors will be classified into three classes of directors with staggered three-year terms and directors will only be able to be removed from office for cause;
- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our stockholders will only be able to take action at a meeting of stockholders and not by written consent;
- only our chairman, our chief executive officer, our president, or a majority of our board of directors are authorized to call a special meeting of stockholders;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established, and shares of which may be issued, without stockholder approval; and
- certain litigation against us can only be brought in Delaware.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Menlo Park, California. As of December 31, 2018, we owned and leased approximately six million square feet of office and building space for our corporate headquarters and in the surrounding areas, and approximately 89 acres of land to be developed to accommodate anticipated future growth.

In addition, we leased offices around the world totaling approximately seven million square feet. We also own and lease data centers throughout the United States and in various locations internationally.

We believe that our facilities are adequate for our current needs.

Item 3. Legal Proceedings

Beginning on March 20, 2018, multiple putative class actions and derivative actions were filed in state and federal courts in the United States and elsewhere against us and certain of our directors and officers alleging violations of securities laws, breach of fiduciary duties, and other causes of action in connection with our platform and user data practices as well as the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies, and seeking unspecified damages and injunctive relief. Beginning on July 27, 2018, two putative class actions were filed in federal court in the United States against us and certain of our directors and officers alleging violations of securities laws in connection with the disclosure of our earnings results for the second quarter of 2018, and seeking unspecified damages. These two actions subsequently were transferred and consolidated in the U.S. District Court for the Northern District of California with the putative securities class action described above relating to our platform and user data practices. We believe these lawsuits are without merit, and we are vigorously defending them. In addition, our platform and user data practices, as well as the events surrounding the misuse of certain data by a developer, became the subject of U.S. Federal Trade Commission, Securities and Exchange Commission, state attorneys general, and other government inquiries in the United States, Europe, and other jurisdictions. Any such inquiries could subject us to substantial fines and costs, require us to change our business practices, divert resources and the attention of management from our business, or adversely affect our business.

Beginning on September 28, 2018, multiple putative class actions were filed in state and federal courts in the United States and elsewhere against us alleging violations of consumer protection laws and other causes of action in connection with a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens and access certain profile information from user accounts on Facebook, and seeking unspecified damages and injunctive relief. We believe these lawsuits are without merit, and we are vigorously defending them. In addition, the events surrounding this cyber-attack became the subject of Irish Data Protection Commission, U.S. Federal Trade Commission and other government inquiries in the United States, Europe, and other jurisdictions. Any such inquiries could subject us to substantial fines and costs, require us to change our business practices, divert resources and the attention of management from our business, or adversely affect our business.

In addition, from time to time, we are subject to litigation and other proceedings involving law enforcement and other regulatory agencies, including in particular in Brazil and Europe, in order to ascertain the precise scope of our legal obligations to comply with the requests of those agencies, including our obligation to disclose user information in particular circumstances. A number of such instances have resulted in the assessment of fines and penalties against us. We believe we have multiple legal grounds to satisfy these requests or prevail against associated fines and penalties, and we intend to vigorously defend such fines and penalties.

We are also party to various other legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business, and we may in the future be subject to additional legal proceedings and disputes.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol "FB" since May 18, 2012. Prior to that time, there was no public market for our stock.

Our Class B common stock is not listed on any stock exchange nor traded on any public market.

Holders of Record

As of December 31, 2018, there were 3,780 stockholders of record of our Class A common stock, and the closing price of our Class A common stock was \$131.09 per share as reported on the Nasdaq Global Select Market. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of December 31, 2018, there were 41 stockholders of record of our Class B common stock.

Dividend Policy

We have never declared or paid any cash dividend on our common stock. We intend to retain any future earnings and do not expect to pay cash dividends in the foreseeable future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the share repurchase activity for the three months ended December 31, 2018 :

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
	(in thousands)		(in thousands)	(in millions)
October 1 - 31, 2018	—	\$ —	—	\$ 3,544
November 1 - 30, 2018	—	\$ —	—	\$ 3,544
December 1 - 31, 2018	25,708	\$ 137.87	25,708	\$ 9,000
	<u>25,708</u>		<u>25,708</u>	

(1) In November 2016, our board of directors authorized a share repurchase program that commenced in January 2017 and does not have an expiration date. We completed repurchases under the original authorization to purchase up to \$6.0 billion of our Class A common stock during the second quarter of 2018. In April 2018, the authorization for the repurchase of our Class A common stock was increased by an additional \$9.0 billion, and we completed repurchases under this authorization during the fourth quarter of 2018. In December 2018, our board of directors authorized an additional \$9.0 billion of repurchases under this program, all of which remained available for future repurchases as of December 31, 2018. The timing and actual number of shares repurchased depend on a variety of factors, including price, general business and market conditions, and other investment opportunities, and shares may be repurchased through open market purchases or privately negotiated transactions, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act.

(2) Average price paid per share includes costs associated with the repurchases.

Recent Sale of Unregistered Securities and Use of Proceeds

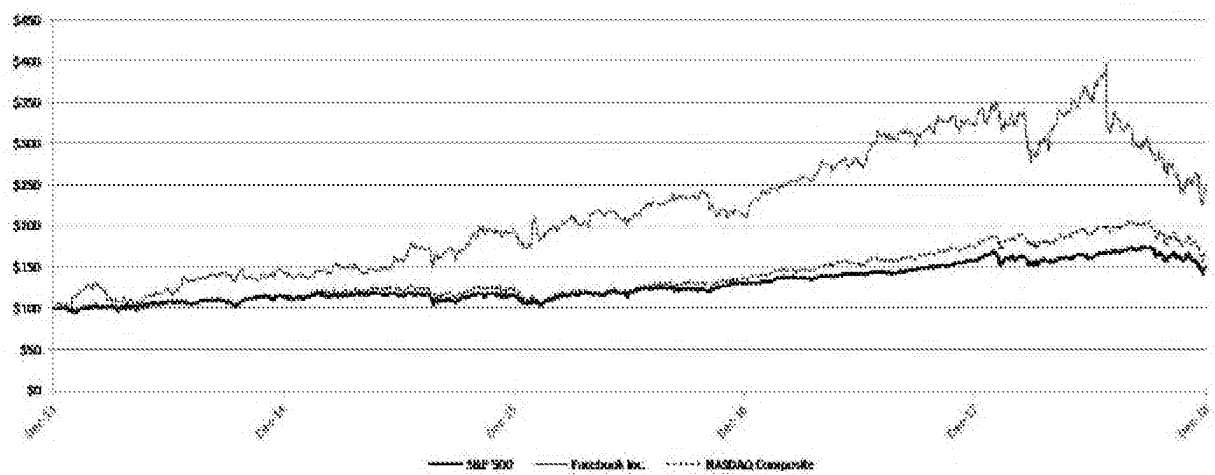
Recent Sale of Unregistered Securities

None.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Facebook, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph shows a comparison of the cumulative total return for our Class A common stock, the Standard & Poor's 500 Stock Index (S&P 500 Index) and the Nasdaq Composite Index (Nasdaq Composite) for the five years ended December 31, 2018. The graph assumes that \$100 was invested at the market close on the last trading day for the fiscal year ended December 31, 2013 in the Class A common stock of Facebook, Inc., the S&P 500 Index and the Nasdaq Composite and data for the S&P 500 Index and the Nasdaq Composite assumes reinvestments of gross dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.



Item 6. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The consolidated statements of income data for each of the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheets data as of December 31, 2018 and 2017 are derived from our audited consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2015 and 2014 and the consolidated balance sheets data as of December 31, 2016, 2015, and 2014 are derived from our audited consolidated financial statements, except as otherwise noted, that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results in any future period.

	Year Ended December 31,									
	2018	2017	2016	2015	2014					
	(in millions, except per share data)									
Consolidated Statements of Income Data:										
Revenue	\$	55,838	\$	40,653	\$	27,638	\$	17,928	\$	12,466
Total costs and expenses ⁽¹⁾		30,925		20,450		15,211		11,703		7,472
Income from operations	\$	24,913	\$	20,203	\$	12,427	\$	6,225	\$	4,994
Income before provision for income taxes	\$	25,361	\$	20,594	\$	12,518	\$	6,194	\$	4,910
Net income	\$	22,112	\$	15,934	\$	10,217	\$	3,688	\$	2,940
Net income attributable to Class A and Class B common stockholders	\$	22,111	\$	15,920	\$	10,188	\$	3,669	\$	2,925
Earnings per share attributable to Class A and Class B common stockholders:										
Basic	\$	7.65	\$	5.49	\$	3.56	\$	1.31	\$	1.12
Diluted	\$	7.57	\$	5.39	\$	3.49	\$	1.29	\$	1.10

(1) Total costs and expenses include \$4.15 billion, \$3.72 billion, \$3.22 billion, \$2.97 billion, and \$1.84 billion of share-based compensation for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

	As of December 31,									
	2018	2017	2016	2015	2014					
	(in millions)									
Consolidated Balance Sheets Data:										
Cash, cash equivalents, and marketable securities	\$	41,114	\$	41,711	\$	29,449	\$	18,434	\$	11,199
Working capital	\$	43,463	\$	44,803	\$	31,526	\$	19,727	\$	11,966
Property and equipment, net	\$	24,683	\$	13,721	\$	8,591	\$	5,687	\$	3,967
Total assets	\$	97,334	\$	84,524	\$	64,961	\$	49,407	\$	39,966
Capital lease obligations	\$	—	\$	—	\$	—	\$	114	\$	233
Total liabilities	\$	13,207	\$	10,177	\$	5,767	\$	5,189	\$	3,870
Additional paid-in capital	\$	42,906	\$	40,584	\$	38,227	\$	34,886	\$	30,225
Total stockholders' equity	\$	84,127	\$	74,347	\$	59,194	\$	44,218	\$	36,096

Free Cash Flow

In addition to other financial measures presented in accordance with U.S. generally accepted accounting principles (GAAP), we monitor free cash flow (FCF) as a non-GAAP measure to manage our business, make planning decisions, evaluate our performance, and allocate resources. We define FCF as net cash provided by operating activities reduced by net purchases of property and equipment.

We believe that FCF is one of the key financial indicators of our business performance over the long term and provides useful information regarding how cash provided by operating activities compares to the property and equipment investments required to maintain and grow our business.

We have chosen our definition for FCF because we believe that this methodology can provide useful supplemental information to help investors better understand underlying trends in our business. We use FCF in discussions with our senior management and board of directors.

FCF has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. FCF is not intended to represent our residual cash flow available for discretionary expenses. Some of the limitations of FCF are:

- FCF does not reflect our future contractual commitments; and
- other companies in our industry present similarly titled measures differently than we do, limiting their usefulness as comparative measures.

Management compensates for the inherent limitations associated with using the FCF measure through disclosure of such limitations, presentation of our financial statements in accordance with GAAP, and reconciliation of FCF to the most directly comparable GAAP measure, net cash provided by operating activities, as presented below.

The following is a reconciliation of FCF to the most comparable GAAP measure, net cash provided by operating activities:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions)				
Net cash provided by operating activities	\$ 29,274	\$ 24,216	\$ 16,108	\$ 10,320	\$ 7,326
Purchases of property and equipment, net	(13,915)	(6,733)	(4,491)	(2,523)	(1,831)
Free cash flow	<u>\$ 15,359</u>	<u>\$ 17,483</u>	<u>\$ 11,617</u>	<u>\$ 7,797</u>	<u>\$ 5,495</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. In addition to our historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Part I, Item 1A, "Risk Factors." For a discussion of limitations in the measurement of certain of our user metrics, see the section entitled "Limitations of Key Metrics and Other Data" in this Annual Report on Form 10-K.

Certain revenue information in the section entitled " — Revenue — Foreign Exchange Impact on Revenue" is presented on a constant currency basis. This information is a non-GAAP financial measure. To calculate revenue on a constant currency basis, we translated revenue for the full year 2018 using 2017 monthly exchange rates for our settlement currencies other than the U.S. dollar. This non-GAAP financial measure is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. This measure may be different from non-GAAP financial measures used by other companies, limiting its usefulness for comparison purposes. Moreover, presentation of revenue on a constant currency basis is provided for year-over-year comparison purposes, and investors should be cautioned that the effect of changing foreign currency exchange rates has an actual effect on our operating results. We believe this non-GAAP financial measure provides investors with useful supplemental information about the financial performance of our business, enables comparison of financial results between periods where certain items may vary independent of business performance, and allows for greater transparency with respect to key metrics used by management in operating our business.

Executive Overview of Full Year 2018 Results

Our key user metrics and financial results for 2018 are as follows:

User growth:

- Daily active users (DAUs) were 1.52 billion on average for December 2018, an increase of 9% year-over-year.
- Monthly active users (MAUs) were 2.32 billion as of December 31, 2018, an increase of 9% year-over-year.

Financial results:

- Revenue was \$55.84 billion, up 37% year-over-year, and ad revenue was \$55.01 billion, up 38% year-over-year.
- Total costs and expenses were \$30.93 billion.
- Income from operations was \$24.91 billion.
- Net income was \$22.11 billion with diluted earnings per share of \$7.57.
- Capital expenditures were \$13.92 billion.
- Effective tax rate was 13%.
- Cash and cash equivalents, and marketable securities were \$41.11 billion as of December 31, 2018.
- Headcount was 35,587 as of December 31, 2018, an increase of 42% year-over-year.

In 2018, we continued to focus on our main revenue growth priorities: (i) helping marketers use our products to connect with consumers where they are and (ii) making our ads more relevant and effective.

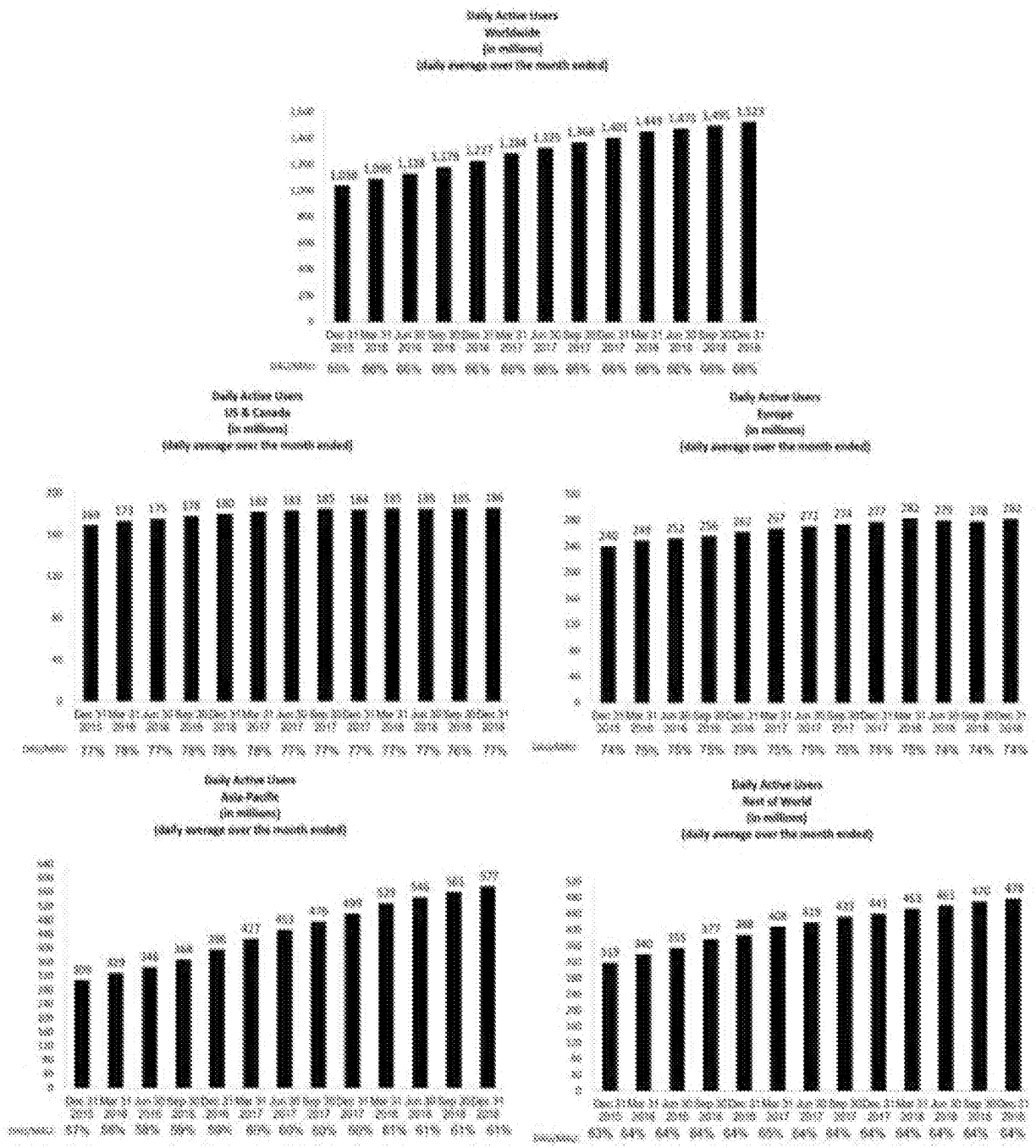
We continued to invest, based on our roadmap, in: (i) our most developed ecosystems, Facebook and Instagram, (ii) driving growth and building ecosystems around our products that already have significant user bases, such as Messenger and WhatsApp, as well as continuing to grow features like Stories, and (iii) long-term technology initiatives, such as connectivity, artificial intelligence, and augmented and virtual reality, that we believe will further our mission to give people the power to build community and bring the world closer together. 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.

Trends in Our User Metrics

The numbers for our key metrics, our DAUs, MAUs, and average revenue per user (ARPU), do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook. In addition, other user engagement metrics do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

Trends in the number of users affect our revenue and financial results by influencing the number of ads we are able to show, the value of our ads to marketers, the volume of Payments transactions, as well as our expenses and capital expenditures. Substantially all of our daily and monthly active users (as defined below) access Facebook on mobile devices.

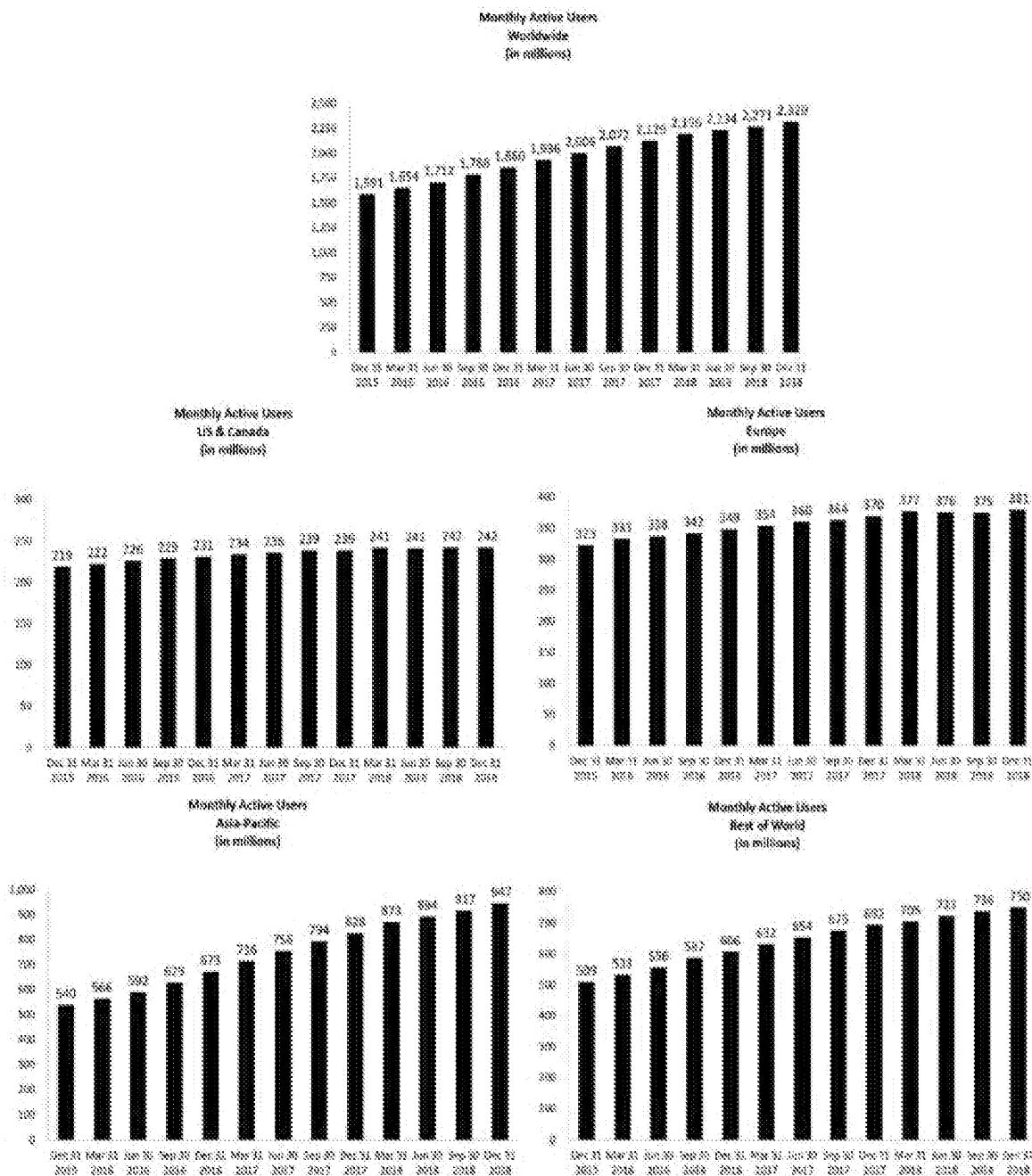
- Daily Active Users (DAUs).** We define a daily active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement on Facebook.



Note: For purposes of reporting DAUs, MAUs, and ARPU by geographic region, Europe includes all users in Russia and Turkey and Rest of World includes all users in Africa, Latin America, and the Middle East.

Worldwide DAUs increased 9% to 1.52 billion on average during December 2018 from 1.40 billion during December 2017. Users in India, Indonesia, and the Philippines represented key sources of growth in DAUs during December 2018, relative to the same period in 2017.

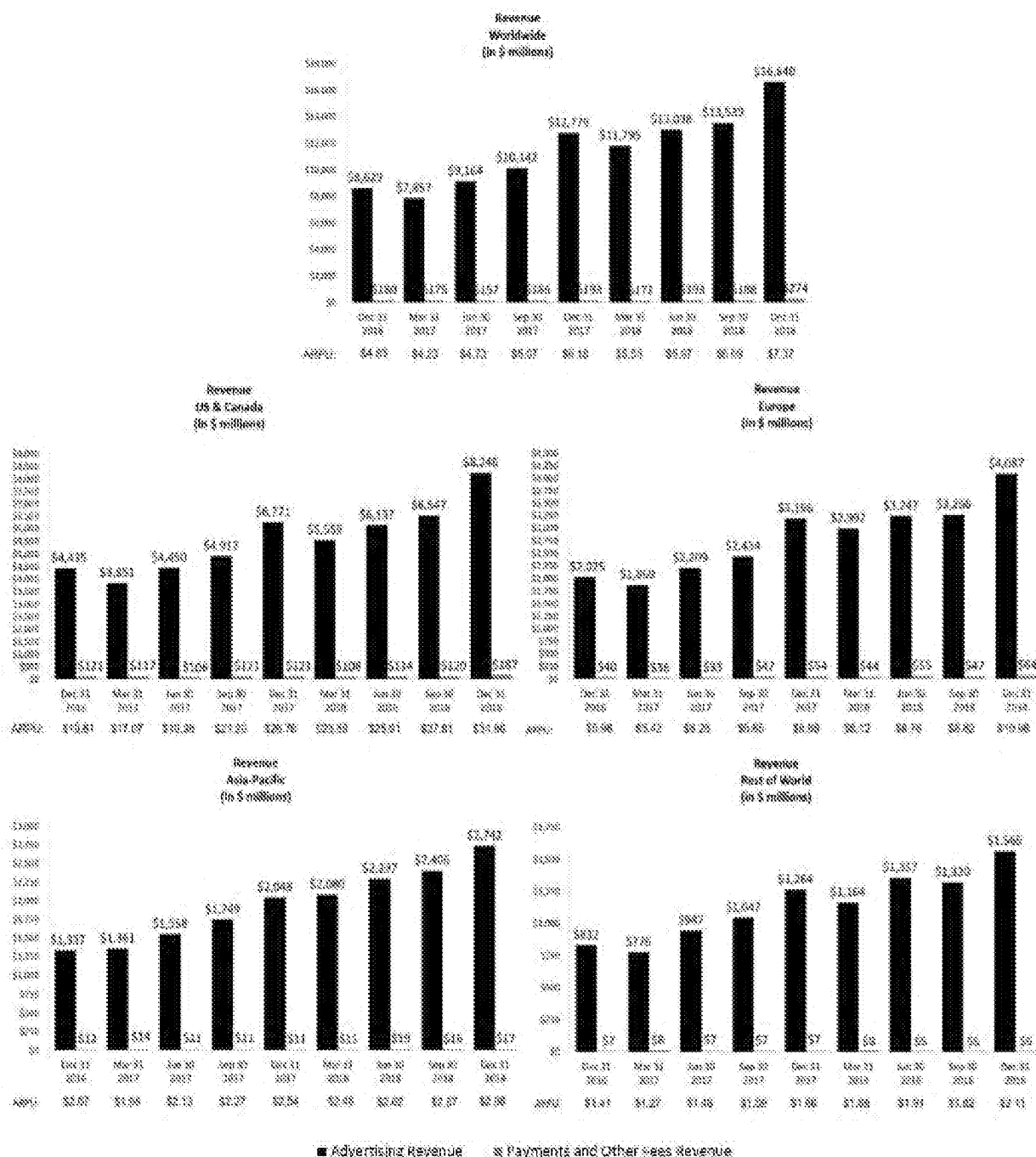
- Monthly Active Users (MAUs).** We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), in the last 30 days as of the date of measurement. MAUs are a measure of the size of our global active user community on Facebook.



As of December 31, 2018, we had 2.32 billion MAUs, an increase of 9% from December 31, 2017. Users in India, Indonesia, and the Philippines represented key sources of growth in 2018, relative to the same period in 2017.

Trends in Our Monetization by User Geography

We calculate our revenue by user geography based on our estimate of the geography in which ad impressions are delivered, virtual and digital goods are purchased, or consumer hardware devices are shipped. We define ARPU as our total revenue in a given geography during a given quarter, divided by the average of the number of MAUs in the geography at the beginning and end of the quarter. While ARPU includes all sources of revenue, the number of MAUs used in this calculation only includes users of Facebook and Messenger as described in the definition of MAU above. Revenue from users who are not also Facebook or Messenger MAUs was not material. The geography of our users affects our revenue and financial results because we currently monetize users in different geographies at different average rates. Our revenue and ARPU in regions such as United States & Canada and Europe are relatively higher primarily due to the size and maturity of those online and mobile advertising markets. For example, ARPU in 2018 in the United States & Canada region was more than ten times higher than in the Asia-Pacific region.



Note: Our revenue by user geography in the charts above is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue disaggregated by geography disclosure in our consolidated financial statements where revenue is geographically apportioned based on the location of the customer.

For 2018 , worldwide ARPU was \$24.96 , an increase of 24% from 2017 . Over this period, ARPU increased by 34% in Europe, 33% in United States & Canada, 21% in Rest of World, and 20% in Asia-Pacific . In addition, user growth was more rapid in geographies with relatively lower ARPU, such as Asia-Pacific and Rest of World. We expect that user growth in the future will be primarily concentrated in those regions where ARPU is relatively lower, such that worldwide ARPU may continue to increase at a slower rate relative to ARPU in any geographic region, or potentially decrease even if ARPU increases in each geographic region.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. We believe that the assumptions and estimates associated with income taxes, loss contingencies, and business combinations and valuation of goodwill and other acquired intangible assets have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see Note 1—Summary of Significant Accounting Policies in the accompanying notes to consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We recognize the deferred income tax effects of a change in tax rates in the period of the enactment. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. These uncertain tax positions include our estimates for transfer pricing that have been developed based upon analyses of appropriate arms-length prices. Similarly, our estimates related to uncertain tax positions concerning research tax credits are based on an assessment of whether our available documentation corroborating the nature of our activities supporting the tax credits will be sufficient. Although we believe that we have adequately reserved for our uncertain tax positions (including net interest and penalties), we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves in accordance with the income tax accounting guidance when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made, and could have a material impact on our financial condition and operating results.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (Tax Act) was enacted into law and the new legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously provided a provisional estimate of the effect of the Tax Act in our financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 31, 2018.

Loss Contingencies

We are involved in legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss in the accompanying notes to the consolidated financial statements.

We review the developments in our contingencies that could affect the amount of the provisions that have been previously recorded, and the matters and related reasonably possible losses disclosed. We make adjustments to our provisions and changes to our disclosures

accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Significant judgment is required to determine both the probability and the estimated amount of loss.

The outcome of these matters is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected. See Note 9—Commitments and Contingencies and Note 12—Income Taxes of the accompanying notes to our consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" and Part I, Item 3, "Legal Proceedings" of this Annual Report on Form 10-K for additional information regarding these contingencies.

Business Combinations and Valuation of Goodwill and Other Acquired Intangible Assets

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

We review goodwill for impairment at least annually or more frequently if events or changes in circumstances would more likely than not reduce the fair value of our single reporting unit below its carrying value. As of December 31, 2018, no impairment of goodwill has been identified.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. We evaluate the recoverability of our intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any significant impairment charges during the years presented.

In addition to the recoverability assessment, we routinely review the remaining estimated useful lives of our finite-lived intangible assets. If we reduce the estimated useful life assumption for any asset, the remaining unamortized balance would be amortized over the revised estimated useful life.

Components of Results of Operations

Revenue

Advertising. We generate substantially all of our revenue from advertising. Our advertising revenue is generated by displaying ad products on Facebook, Instagram, Messenger, and third-party affiliated websites or mobile applications. Marketers pay for ad products either directly or through their relationships with advertising agencies or resellers, based on the number of impressions delivered or the number of actions, such as clicks, taken by users.

We recognize revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to a user. We recognize revenue from the delivery of action-based ads in the period in which a user takes the action the marketer contracted for. The number of ads we show is subject to methodological changes as we continue to evolve our ads business and the structure of our ads products. We calculate price per ad as total ad revenue divided by the number of ads delivered, representing the effective price paid per impression by a marketer regardless of their desired objective such as impression or action. For advertising revenue arrangements where we are not the principal, we recognize revenue on a net basis.

Payments and other fees. Payments revenue is comprised of the net fee we receive from developers using our Payments infrastructure. Our other fees revenue consists primarily of revenue from the delivery of consumer hardware devices, as well as revenue from various other sources.

Cost of Revenue and Operating Expenses

Cost of revenue. Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers, such as facility and server equipment depreciation, salaries, benefits, and share-based compensation for employees on our operations teams, and energy and bandwidth costs. Cost of revenue also includes costs associated with partner arrangements, including traffic acquisition and content acquisition costs, credit card and other transaction fees related to processing customer transactions, and cost of consumer hardware device inventory sold.

Research and development. Research and development expenses consist primarily of share-based compensation, salaries, and benefits for employees on our engineering and technical teams who are responsible for building new products as well as improving existing products. We expense all of our research and development costs as they are incurred.

Marketing and sales. Our marketing and sales expenses consist of salaries, share-based compensation, and benefits for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include marketing and promotional expenditures, and professional services such as content reviewers.

General and administrative. The majority of our general and administrative expenses consist of salaries, benefits, and share-based compensation for certain of our executives as well as our legal, finance, human resources, corporate communications and policy, and other administrative employees. In addition, general and administrative expenses include legal-related costs and professional services.

Results of Operations

The following tables set forth our consolidated statements of income data:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Consolidated Statements of Income Data:			
Revenue	\$ 55,838	\$ 40,653	\$ 27,638
Costs and expenses:			
Cost of revenue	9,355	5,454	3,789
Research and development	10,273	7,754	5,919
Marketing and sales	7,846	4,725	3,772
General and administrative	3,451	2,517	1,731
Total costs and expenses	30,925	20,450	15,211
Income from operations	24,913	20,203	12,427
Interest and other income (expense), net	448	391	91
Income before provision for income taxes	25,361	20,594	12,518
Provision for income taxes	3,249	4,660	2,301
Net income	\$ 22,112	\$ 15,934	\$ 10,217

Share-based compensation expense included in costs and expenses:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Cost of revenue	\$ 284	\$ 178	\$ 113
Research and development	3,022	2,820	2,494
Marketing and sales	511	436	368
General and administrative	335	289	243
Total share-based compensation expense	\$ 4,152	\$ 3,723	\$ 3,218

The following tables set forth our consolidated statements of income data (as a percentage of revenue):

	Year Ended December 31,		
	2018	2017	2016
Consolidated Statements of Income Data:			
Revenue	100 %	100 %	100 %
Costs and expenses:			
Cost of revenue	17	13	14
Research and development	18	19	21
Marketing and sales	14	12	14
General and administrative	6	6	6
Total costs and expenses	55	50	55
Income from operations	45	50	45
Interest and other income (expense), net	1	1	—
Income before provision for income taxes	45	51	45
Provision for income taxes	6	11	8
Net income	40 %	39 %	37 %

Share-based compensation expense included in costs and expenses (as a percentage of revenue):

	Year Ended December 31,		
	2018	2017	2016
Cost of revenue	1%	—%	—%
Research and development	5	7	9
Marketing and sales	1	1	1
General and administrative	1	1	1
Total share-based compensation expense	7%	9%	12%

Revenue

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(in millions)				
Advertising	\$ 55,013	\$ 39,942	\$ 26,885	38%	49%
Payments and other fees	825	711	753	16%	(6)%
Total revenue	\$ 55,838	\$ 40,653	\$ 27,638	37%	47%

2018 Compared to 2017. Revenue in 2018 increased \$15.19 billion, or 37%, compared to 2017. The increase was mostly due to an increase in advertising revenue.

The most important factor driving advertising revenue growth was an increase in revenue from ads on mobile devices. For 2018, we estimate that mobile advertising revenue represented approximately 92% of total advertising revenue, as compared with approximately 88% in 2017. The increase in advertising revenue for 2018 was due to increases in the number of ads delivered and the average price per ad. In 2018 compared to 2017, the number of ads delivered increased by 22%, as compared with approximately 15% in 2017, and the average price per ad increased by 13%, as compared with approximately 29% in 2017.

The increase in the ads delivered was driven by an increase in users and their engagement, and an increase in the number and frequency of ads displayed across our products. The increase in average price per ad was driven by an increase in demand for our ad inventory. Factors contributing to the increase in demand for our ad inventory include an increase in spend from existing marketers and an increase in the number of marketers actively advertising on our platform as well as the quality, relevance, and performance of those ads. We anticipate that future advertising revenue growth will be driven by a combination of price and the number of ads displayed.

Advertising spending is traditionally seasonally strong in the fourth quarter of each year. We believe that this seasonality in advertising spending affects our quarterly results, which generally reflect significant growth in advertising revenue between the third and fourth quarters and a decline in advertising spending between the fourth and subsequent first quarters. For instance, our advertising revenue increased 23%, 26%, and 27% between the third and fourth quarters of 2018, 2017, and 2016, respectively, while advertising revenue for both the first quarters of 2018 and 2017 declined 8% and 9% compared to the fourth quarters of 2017 and 2016, respectively.

2017 Compared to 2016. Revenue in 2017 increased \$13.02 billion, or 47%, compared to 2016. The increase was mostly due to an increase in advertising revenue.

The most important factor driving advertising revenue growth was an increase in revenue from ads on mobile devices. For 2017, we estimate that mobile advertising revenue represented approximately 88% of total advertising revenue, as compared with approximately 83% in 2016. Factors that influenced our advertising revenue growth in 2017 included (i) an increase in average price per ad, (ii) an increase in users and their engagement, and (iii) an increase in the number and frequency of ads displayed on mobile devices.

In 2017 compared to 2016, the average price per ad increased by 29%, as compared with approximately 5% in 2016, and the number of ads delivered increased by 15%, as compared with approximately 50% in 2016. The increase in average price per ad was driven by an increase in demand for our ad inventory; factors contributing to this include an increase in spend from existing marketers and an increase in the number of marketers actively advertising on our platform as well as the quality, relevance, and performance of those ads. The increase in the ads delivered was driven by an increase in users and their engagement and an increase in the number and frequency of ads displayed on News Feed, partially offset by increasing user engagement with video content and other product

changes.

No customer represented 10% or more of total revenue during the years ended December 31, 2018, 2017, and 2016.

Foreign Exchange Impact on Revenue

The general weakening of the U.S. dollar relative to certain foreign currencies in the full year 2018 compared to the same period in 2017, and in the full year 2017 compared to the same period in 2016, had a favorable impact on our revenue. If we had translated revenue for the full year 2018 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue and advertising revenue would have been \$55.44 billion and \$54.61 billion, respectively. If we had translated revenue for the full year 2017 using 2016 monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue and advertising revenue would have been \$40.36 billion and \$39.65 billion, respectively. Using these constant rates, both total revenue and advertising revenue would have been \$401 million lower than actual revenue and advertising revenue for the full year 2018, and \$293 million and \$292 million lower than actual revenue and advertising revenue, respectively, for the full year 2017.

Cost of revenue

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(dollars in millions)				
Cost of revenue	\$ 9,355	\$ 5,454	\$ 3,789	72%	44 %
Percentage of revenue	17 %	13 %	14 %		

2018 Compared to 2017. Cost of revenue in 2018 increased \$3.90 billion, or 72%, compared to 2017. 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.

2017 Compared to 2016. Cost of revenue in 2017 increased \$1.67 billion, or 44%, compared to 2016. The majority of the increase was due to an increase in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher costs associated with partnership agreements, including content acquisition costs, and ads payment processing.

In 2019, we anticipate that the cost of revenue will increase as we continue to expand our data center capacity and technical infrastructure to support user growth, increased user engagement, and the delivery of new products and services and, to a lesser extent, due to higher costs associated with ads payment processing and various partnership agreements.

Research and development

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(dollars in millions)				
Research and development	\$ 10,273	\$ 7,754	\$ 5,919	32%	31%
Percentage of revenue	18 %	19 %	21 %		

2018 Compared to 2017. Research and development expenses in 2018 increased \$2.52 billion, or 32%, compared to 2017. The majority of the increase was due to an increase in payroll and benefits expense as a result of a 43% growth in employee headcount from December 31, 2017 to December 31, 2018 in engineering and other technical functions, and, to a lesser extent, an increase in professional service expenses. Payroll and benefits expense growth was less than headcount growth partially due to a \$473 million decrease in share-based compensation related to the acquisitions completed in 2014.

2017 Compared to 2016. Research and development expenses in 2017 increased \$1.84 billion, or 31%, compared to 2016. The majority of the increase was due to an increase in payroll and benefits as a result of a 49% growth in employee headcount from December 31, 2016 to December 31, 2017 in engineering and other technical functions, partially offset by a \$262 million decrease in share-based compensation related to the acquisitions completed in 2014.

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 and sales

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(dollars in millions)				
Marketing and sales	\$ 7,846	\$ 4,725	\$ 3,772	66%	25 %
Percentage of revenue	14 %	12 %	14 %		

2018 Compared to 2017 . Marketing and sales expenses in 2018 increased \$3.12 billion , or 66% , compared to 2017 . The increase was mostly 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 from December 31, 2017 to December 31, 2018 in our marketing and sales functions.

2017 Compared to 2016 . Marketing and sales expenses in 2017 increased \$953 million, or 25%, compared to 2016. The majority of the increase was due to increases in payroll and benefits expenses as a result of a 35% increase in employee headcount from December 31, 2016 to December 31, 2017 in our marketing and sales functions, and increases in our consulting and other professional service fees.

In 2019 , we plan to continue the hiring of marketing and sales employees to support our marketing, sales, and partnership efforts and to increase our investment in community operations to support our security efforts.

General and administrative

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(dollars in millions)				
General and administrative	\$ 3,451	\$ 2,517	\$ 1,731	37%	45%
Percentage of revenue	6 %	6 %	6 %		

2018 Compared to 2017 . General and administrative expenses in 2018 increased \$934 million , or 37% , compared to 2017 . The increase was primarily due to increases in payroll and benefits expenses as a result of a 32% increase in employee headcount from December 31, 2017 to December 31, 2018 in general and administrative functions.

2017 Compared to 2016 . General and administrative expenses in 2017 increased \$786 million, or 45%, compared to 2016. The majority of the increase was due to an increase in payroll and benefits expenses as a result of a 58% increase in employee headcount from December 31, 2016 to December 31, 2017 in general and administrative functions, and to a lesser extent, higher legal-related costs.

In 2019 , we plan to continue to increase general and administrative expenses to support overall company growth.

Interest and other income (expense), net

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(in millions)				
Interest income, net	\$ 652	\$ 392	\$ 166	66%	136%
Other income (expense), net	(204)	(1)	(75)	NM	99%
Interest and other income (expense), net	\$ 448	\$ 391	\$ 91	15%	NM

2018 Compared to 2017. Interest and other income, net in 2018 increased \$57 million compared to 2017. The increase in 2018 was due to an increase in interest income driven by higher interest rates, partially offset by an increase in other expense as a result of foreign exchange impact occurring from the periodic re-measurement of our foreign currency balances.

2017 Compared to 2016. Interest and other income, net in 2017 increased \$300 million compared to 2016. The majority of the increase in 2017 was due to an increase in interest income driven by higher invested cash balances and interest rates. In addition, foreign exchange impact resulting from the periodic re-measurement of our foreign currency assets and liabilities also contributed to the increase in 2017.

Provision for income taxes

	Year Ended December 31,			2018 vs 2017 % Change	2017 vs 2016 % Change
	2018	2017	2016		
	(dollars in millions)				
Provision for income taxes	\$ 3,249	\$ 4,660	\$ 2,301	(30)%	103%
Effective tax rate	13 %	23 %	18 %		

2018 Compared to 2017. Our provision for income taxes in 2018 decreased \$1.41 billion, or 30%, compared to 2017, 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.

2017 Compared to 2016. Our provision for income taxes in 2017 increased \$2.36 billion, or 103%, compared to 2016, mostly due to the effects of the Tax Act that was enacted on December 22, 2017 and an increase in income before provision for income taxes, partially offset by an increase in excess tax benefits recognized from share-based compensation. As a result of the Tax Act, we recognized a one-time mandatory transition tax on accumulated foreign subsidiary earnings, remeasured our U.S. deferred tax assets and liabilities, and reassessed the net realizability of our deferred tax assets and liabilities, which increased our provision for income taxes in 2017 by \$2.27 billion.

Effective Tax Rate Items. Our effective tax rate in the future will depend upon the proportion of our income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate, as well as a number of other factors, including excess tax benefits from share-based compensation, tax effects of integrating intellectual property from acquisitions, settlement of tax contingency items, tax effects of changes in our business, and the impact of changes in tax law.

The proportion of our income before provision for income taxes earned in jurisdictions with a tax rate lower than the U.S. statutory rate will depend upon the proportion of revenue and costs associated with the respective jurisdictions.

The accounting for share-based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the deductions taken on our tax return which depends upon the stock price at the time of employee award vesting. If our stock price remains constant to the January 28, 2019 price, we expect our effective tax rate for 2019 will be a few percentage points higher than our 2018 rate.

Integrating intellectual property from acquisitions into our business generally involves intercompany transactions that have the impact of increasing our provision for income taxes. Consequently, our provision for income taxes and our effective tax rate may initially increase in the period of an acquisition and integration. The magnitude of this impact will depend upon the specific type, size, and taxing jurisdictions of the intellectual property as well as the relative contribution to income in subsequent periods.

On July 27, 2015, the United States Tax Court (Tax Court) issued an opinion in *Altera Corp v. Commissioner* (Tax Court Opinion), which concluded that related parties in a cost sharing arrangement are not required to share expenses related to share-based compensation. The Tax Court Opinion was appealed by the Commissioner to the Ninth Circuit Court of Appeals (Ninth Circuit). On July 24, 2018, the Ninth Circuit issued an opinion (Ninth Circuit Opinion) that reversed the Tax Court Opinion. The Ninth Circuit Opinion was subsequently withdrawn and the case is being reheard. Since the Ninth Circuit Opinion was withdrawn, we continue to treat our share-based compensation expense in accordance with the Tax Court Opinion. We also continue to monitor developments in this case and any impact the final opinion could have on our consolidated financial statements. Had the Ninth Circuit not withdrawn its opinion, our effective tax rate for 2018 would have been higher.

Unrecognized Tax Benefits. As of December 31, 2018, we had net unrecognized tax benefits of \$3.07 billion which were accrued as other liabilities. These unrecognized tax benefits were predominantly accrued for uncertainties related to transfer pricing with our foreign subsidiaries, which includes licensing of intellectual property, providing services and other transactions, as well as for uncertainties with our research tax credits. The ultimate settlement of the liabilities will depend upon resolution of tax audits, litigation, or events that would otherwise change the assessment of such items. Based upon the status of litigation described below, the current status of tax audits in various jurisdictions, and excluding the effects of the *Altera Corp v. Commissioner* case that we are monitoring, we do not anticipate a significant impact to such amounts within the next 12 months.

In July 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS related to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year. While the Notice applies only to the 2010 tax year, the IRS states that it will also apply its position for tax years subsequent to 2010, which, if the IRS prevails in its position, could result in an additional federal tax liability of an estimated, aggregate amount of up to approximately \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the position of the IRS and have filed a petition in the Tax Court challenging the Notice. In March 2018, we received a second Notice from the IRS in conjunction with the examination of our 2011 through 2013 tax years. The IRS applied its position from the 2010 tax year to each of these years and also proposed new adjustments related to other transfer pricing with our foreign subsidiaries and certain tax credits that we claimed. If the IRS prevails in its position for these new adjustments, this could result in an additional federal tax liability of up to approximately \$680 million in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the positions of the IRS in the second Notice and have filed a petition in the Tax Court challenging the second Notice. We have previously accrued an estimated unrecognized tax benefit consistent with the guidance in ASC 740 that is lower than the potential additional federal tax liability from the positions taken by the IRS in the two Notices. In addition, if the IRS prevails in its positions, related to transfer pricing with our foreign subsidiaries, the additional tax that we would owe would be partially offset by a reduction in the tax that we owe under the mandatory transition tax on accumulated foreign earnings from the Tax Act. As of December 31, 2018, we have not resolved these matters, and proceedings continue in Tax Court.

We believe that adequate amounts have been reserved in accordance with ASC 740 for any adjustments to the provision for income taxes or other tax items that may ultimately result from these examinations. The timing of the resolution, settlement, and closure of any audits is highly uncertain, and it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. Given the number of years remaining that are subject to examination in various jurisdictions, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits. If the taxing authorities prevail in the assessment of additional tax due, the assessed tax, interest, and penalties, if any, could have a material adverse effect on our financial position, results of operations, and cash flows.

Quarterly Results of Operations Data

The following tables set forth our unaudited quarterly consolidated statements of income data in dollars and as a percentage of total revenue for each of the eight quarters in the period ended December 31, 2018. We have prepared the quarterly consolidated statements of income data on a basis consistent with the audited consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. The results of historical periods are not necessarily indicative of the results of operations for any future period.

	Three Months Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
(in millions, except per share amounts)								
Consolidated Statements of Income Data:								
Revenue:								
Advertising	\$ 16,640	\$ 13,539	\$ 13,038	\$ 11,795	\$ 12,779	\$ 10,142	\$ 9,164	\$ 7,857
Payments and other fees	274	188	193	171	193	186	157	175
Total revenue	16,914	13,727	13,231	11,966	12,972	10,328	9,321	8,032
Costs and expenses:								
Cost of revenue	2,796	2,418	2,214	1,927	1,611	1,448	1,237	1,159
Research and development	2,855	2,657	2,523	2,238	1,949	2,052	1,919	1,834
Marketing and sales	2,467	1,928	1,855	1,595	1,374	1,170	1,124	1,057
General and administrative	976	943	776	757	686	536	640	655
Total costs and expenses	9,094	7,946	7,368	6,517	5,620	5,206	4,920	4,705
Income from operations	7,820	5,781	5,863	5,449	7,352	5,122	4,401	3,327
Interest and other income (expense), net	151	131	5	161	110	114	87	81
Income before provision for income taxes	7,971	5,912	5,868	5,610	7,462	5,236	4,488	3,408
Provision for income taxes	1,089	775	762	622	3,194	529	594	344
Net income	\$ 6,882	\$ 5,137	\$ 5,106	\$ 4,988	\$ 4,268	\$ 4,707	\$ 3,894	\$ 3,064
Less: Net income attributable to participating securities	—	—	—	1	2	3	4	5
Net income attributable to Class A and Class B common stockholders	\$ 6,882	\$ 5,137	\$ 5,106	\$ 4,987	\$ 4,266	\$ 4,704	\$ 3,890	\$ 3,059
Earnings per share attributable to Class A and Class B common stockholders:								
Basic	\$ 2.40	\$ 1.78	\$ 1.76	\$ 1.72	\$ 1.47	\$ 1.62	\$ 1.34	\$ 1.06
Diluted	\$ 2.38	\$ 1.76	\$ 1.74	\$ 1.69	\$ 1.44	\$ 1.59	\$ 1.32	\$ 1.04

Share-based compensation expense included in costs and expenses:

	Three Months Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
	(in millions)							
Cost of revenue	\$ 82	\$ 72	\$ 74	\$ 56	\$ 50	\$ 47	\$ 47	\$ 34
Research and development	675	748	881	718	587	776	787	670
Marketing and sales	130	133	139	109	106	114	120	96
General and administrative	84	87	92	72	71	73	78	67
Total share-based compensation expense	\$ 971	\$ 1,040	\$ 1,186	\$ 955	\$ 814	\$ 1,010	\$ 1,032	\$ 867

	Three Months Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
	(as a percentage of total revenue)							

Consolidated Statements of Income

Data:

Revenue:								
Advertising	98 %	99 %	99 %	99 %	99 %	98 %	98 %	98 %
Payments and other fees	2	1	1	1	1	2	2	2
Total revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Costs and expenses:								
Cost of revenue	17	18	17	16	12	14	13	14
Research and development	17	19	19	19	15	20	21	23
Marketing and sales	15	14	14	13	11	11	12	13
General and administrative	6	7	6	6	5	5	7	8
Total costs and expenses	54	58	56	54	43	50	53	59
Income from operations	46	42	44	46	57	50	47	41
Interest and other income (expense), net	1	1	—	1	1	1	1	1
Income before provision for income taxes	47	43	44	47	58	51	48	42
Provision for income taxes	6	6	6	5	25	5	6	4
Net income	41 %	37 %	39 %	42 %	33 %	46 %	42 %	38 %
Less: Net income attributable to participating securities	—	—	—	—	—	—	—	—
Net income attributable to Class A and Class B common stockholders	41%	37%	39%	42%	33%	46%	42%	38%

Share-based compensation expense included in costs and expenses:

	Three Months Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
	(as a percentage of total revenue)							
Cost of revenue	%	1%	1%	%	%	%	1%	%
Research and development	4	5	7	6	5	8	8	8
Marketing and sales	1	1	1	1	1	1	1	1
General and administrative	—	1	1	1	1	1	1	1
Total share-based compensation expense	6%	8%	9%	8%	6%	10%	11%	11%

Liquidity and Capital Resources

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Consolidated Statements of Cash Flows Data:			
Net cash provided by operating activities	\$ 29,274	\$ 24,216	\$ 16,108
Net cash used in investing activities	\$ (11,603)	\$ (20,118)	\$ (11,792)
Net cash used in financing activities	\$ (15,572)	\$ (5,235)	\$ (310)
Purchases of property and equipment, net	\$ (13,915)	\$ (6,733)	\$ (4,491)
Depreciation and amortization	\$ 4,315	\$ 3,025	\$ 2,342
Share-based compensation	\$ 4,152	\$ 3,723	\$ 3,218

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, and cash generated from operations. Cash and cash equivalents, and marketable securities consist mostly of cash on deposit with banks, investments in money market funds, and investments in U.S. government securities, U.S. government agency securities, and corporate debt securities. Cash and cash equivalents, and marketable securities were \$41.11 billion as of December 31, 2018, a decrease of \$597 million from December 31, 2017, mostly due to \$13.92 billion for purchases of property and equipment, \$12.88 billion for repurchases of our Class A common stock, and \$3.21 billion of taxes paid related to net share settlement of equity awards, offset by \$29.27 billion of cash generated from operations and a \$500 million increase in overdraft in cash pooling entities.

Cash paid for income taxes was \$3.76 billion for the year ended December 31, 2018. As of December 31, 2018, our federal net operating loss carryforward was \$7.88 billion, and we anticipate that none of this amount will be utilized to offset our federal taxable income in 2018. As of December 31, 2018, we had \$290 million of federal tax credit carryforward, of which none will be available to offset our federal tax liabilities in 2018. In addition, we are monitoring the *Altera Corp. v. Commissioner* case as it applies to our facts and circumstances as it could increase our cash paid for income taxes.

In May 2016, we entered into a \$2.0 billion senior unsecured revolving credit facility, and any amounts outstanding under the facility will be due and payable on May 20, 2021. As of December 31, 2018, no amounts had been drawn down and we were in compliance with the covenants under this credit facility.

Our board of directors has authorized a share repurchase program that commenced in 2017 and does not have an expiration date. During the second quarter of 2018, we completed repurchases under the original authorization to purchase up to \$6.0 billion of our Class A common stock. In April 2018, the authorization for the repurchase of our Class A common stock was increased by an additional \$9.0 billion, and we completed repurchases under this authorization during the fourth quarter of 2018. 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.

In 2018, we paid \$3.21 billion of taxes related to the net share settlement of equity awards.

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. See Note 9—Commitments and Contingencies of the accompanying notes to our consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information regarding our notional cash pooling arrangement.

As of December 31, 2018, \$16.28 billion of the \$41.11 billion in cash and cash equivalents and marketable securities was held by our foreign subsidiaries. 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.

We currently anticipate that our available funds, credit facility, and cash flow from operations will be sufficient to meet our operational cash needs for the foreseeable future.

Cash Provided by Operating Activities

Cash flow from operating activities during 2018 mostly consisted of net income, adjusted for certain non-cash items, such as total depreciation and amortization of \$4.32 billion and share-based compensation expense of \$4.15 billion. The increase in cash flow from operating activities during 2018 compared to 2017 was mostly due to an increase in net income, adjusted for certain non-cash items, such as depreciation and amortization, deferred income tax and share-based compensation expense. Due to the enactment of the Tax Act in 2017, we recorded a higher tax liability in 2017, which partially offset the increase in cash flow from operating activities in 2018.

Cash flow from operating activities during 2017 mostly consisted of net income, adjusted for certain non-cash items, such as share-based compensation expense of \$3.72 billion and total depreciation and amortization of \$3.03 billion. The increase in cash flow from operating activities during 2017 compared to 2016 was mostly due to an increase in net income, adjusted for certain non-cash items, such as depreciation and amortization and share-based compensation expense. Due to the enactment of the Tax Act in 2017, we recorded a provisional tax liability of \$2.9 billion relating to the one-time mandatory transition tax on our accumulated foreign earnings, which also contributed to the increase in 2017 compared to 2016.

Cash flow from operating activities during 2016 mostly consisted of net income, adjusted for certain non-cash items, such as share-based compensation expense of \$3.22 billion and total depreciation and amortization of \$2.34 billion. The increase in cash flow from operating activities during 2016 compared to 2015, was mostly due to an increase in net income, including the impact of ASU 2016-09 adoption, as adjusted for depreciation and amortization, deferred income taxes, and share-based compensation expense.

Cash Used in Investing Activities

Cash used in investing activities during 2018 mostly resulted from \$13.92 billion of capital expenditures as we continued to invest in data centers, servers, network infrastructure, and office buildings, offset by \$2.47 billion of net sales and maturities of marketable securities. The decrease in cash used in investing activities during 2018 compared to 2017 was mostly due to a decrease in the net purchases of marketable securities, partially offset by an increase in capital expenditures.

Cash used in investing activities during 2017 mostly resulted from \$13.25 billion for net purchases of marketable securities and \$6.73 billion for capital expenditures as we continued to invest in servers, data centers, office buildings, and network infrastructure. The increase in cash used in investing activities during 2017 compared to 2016 was due to increases in net purchases of marketable securities and capital expenditures.

Cash used in investing activities during 2016 mostly resulted from \$7.19 billion for net purchases of marketable securities and \$4.49 billion for capital expenditures as we continued to invest in data centers, servers, office buildings, and network infrastructure. The increase in cash used in investing activities during 2016 compared to 2015 was mostly due to increases in capital expenditures and net purchases of marketable securities.

We anticipate making capital expenditures in 2019 of approximately \$18 billion to \$20 billion.

Cash Used in Financing Activities

Cash used in financing activities during 2018 consisted of \$12.88 billion paid for repurchases of our Class A common stock, and \$3.21 billion of taxes paid related to net share settlement of equity awards, offset by a \$500 million overdraft in cash pooling entities. The increase in cash used in financing activities during 2018 compared to 2017 was mostly due to an increase in repurchases of our Class A common stock, partially offset by an increase in overdraft balances in cash pooling entities.

Cash used in financing activities during 2017 mostly consisted of \$3.25 billion of taxes paid related to net share settlement of equity awards, and \$1.98 billion paid for repurchases of our Class A common stock. The increase in cash used in financing activities during 2017 compared to 2016 was mostly due to taxes paid related to net share settlement of equity awards and repurchases of our Class A common stock that commenced in 2017.

Cash used in financing activities during 2016 mostly consisted of principal payments on capital lease and other financing obligations. The increase in cash used in financing activities was due to full repayment of our capital lease and other financing obligations in 2016.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2018.

Contractual Obligations

Our principal commitments consist of obligations under operating leases, which include among others, certain of our offices, data centers, land, and colocation leases, as well as contractual commitments related to network infrastructure and data center operations. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2018 (in millions):

	Total	Payment Due by Period			
		2019	2020-2021	2022-2023	Thereafter
Operating lease obligations	\$ 14,651	\$ 698	\$ 2,001	\$ 2,102	\$ 9,850
Transition tax payable	1,587	—	—	324	1,263
Other contractual commitments ⁽¹⁾	6,173	3,377	1,135	238	1,423
Total contractual obligations	\$ 22,411	\$ 4,075	\$ 3,136	\$ 2,664	\$ 12,536

(1) Other contractual commitments primarily relate to network infrastructure and our data center operations.

As part of the normal course of the business, we may enter into multi-year agreements to purchase certain network components that do not specify a fixed or minimum price commitment or to purchase renewable energy that do not specify a fixed or minimum volume commitment. These agreements are generally entered into in order to secure either volume or price. Using projected market prices or expected volume consumption, the total estimated spend is approximately \$6.0 billion. The ultimate spend under these agreements may vary and will be based on prevailing market prices or actual volume purchased.

In addition, our other liabilities include \$3.07 billion related to net uncertain tax positions as of December 31, 2018. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months. As a result, this amount is not included in the above contractual obligations table.

Contingencies

We are involved in legal proceedings, claims, and regulatory, tax or government inquiries and investigations. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and that the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss in the accompanying notes to the consolidated financial statements. Significant judgment is required to determine both probability and the estimated amount of loss. Such matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

See Note 9—Commitments and Contingencies and Note 12—Income Taxes of the accompanying notes to our consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" and Part I, Item 3, "Legal Proceedings" of this Annual Report on Form 10-K for additional information regarding contingencies.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We will adopt the new standard effective January 1, 2019 on a modified retrospective basis and will not restate comparative periods. We will elect the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We will also elect to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term. We estimate approximately \$6 billion would be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. Other than disclosed, we do not expect the new standard to have a material impact on our remaining consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, including changes to foreign currency exchange rates, interest rates, and inflation.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro. In general, we are a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, have in the past, and may in the future, negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. At this time we have not entered into, but in the future we may enter into, derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the effect hedging activities would have on our results of operations. We recognized foreign currency losses of \$213 million , \$6 million , and \$76 million in 2018 , 2017 , and 2016 , respectively.

Interest Rate Sensitivity

Our exposure to changes in interest rates relates primarily to interest earned and market value on our cash and cash equivalents, and marketable securities.

Our cash and cash equivalents and marketable securities consist of cash, certificates of deposit, time deposits, money market funds, U.S. government securities, U.S. government agency securities, and corporate debt securities . Our investment policy and strategy are focused on preservation of capital and supporting our liquidity requirements. Changes in U.S. interest rates affect the interest earned on our cash and cash equivalents and marketable securities, and the market value of those securities. A hypothetical 100 basis point increase in interest rates would have resulted in a decrease of \$468 million and \$611 million in the market value of our available-for-sale debt securities as of December 31, 2018 and December 31, 2017 , respectively. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

Item 8. Financial Statements and Supplementary Data

FACEBOOK, INC.

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The supplementary financial information required by this Item 8, is included in Part II, Item 7 under the caption "Quarterly Results of Operations Data," which is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Facebook, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Facebook, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 31, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

San Francisco, California

January 31, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Facebook, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Facebook, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Facebook, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated January 31, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Francisco, California
January 31, 2019

FACEBOOK, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except for number of shares and par value)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,019	\$ 8,079
Marketable securities	31,095	33,632
Accounts receivable, net of allowances of \$229 and \$189 as of December 31, 2018 and 2017, respectively	7,587	5,832
Prepaid expenses and other current assets	1,779	1,020
Total current assets	50,480	48,563
Property and equipment, net	24,683	13,721
Intangible assets, net	1,294	1,884
Goodwill	18,301	18,221
Other assets	2,576	2,135
Total assets	\$ 97,334	\$ 84,524
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 820	\$ 380
Partners payable	541	390
Accrued expenses and other current liabilities	5,509	2,892
Deferred revenue and deposits	147	98
Total current liabilities	7,017	3,760
Other liabilities	6,190	6,417
Total liabilities	13,207	10,177
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.000006 par value: 5,000 million Class A shares authorized, 2,385 million and 2,397 million shares issued and outstanding, as of December 31, 2018 and December 31, 2017, respectively; 4,141 million Class B shares authorized, 469 million and 509 million shares issued and outstanding, as of December 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	42,906	40,584
Accumulated other comprehensive loss	(760)	(227)
Retained earnings	41,981	33,990
Total stockholders' equity	84,127	74,347
Total liabilities and stockholders' equity	\$ 97,334	\$ 84,524

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenue	\$ 55,838	\$ 40,653	\$ 27,638
Costs and expenses:			
Cost of revenue	9,355	5,454	3,789
Research and development	10,273	7,754	5,919
Marketing and sales	7,846	4,725	3,772
General and administrative	3,451	2,517	1,731
Total costs and expenses	30,925	20,450	15,211
Income from operations	24,913	20,203	12,427
Interest and other income (expense), net	448	391	91
Income before provision for income taxes	25,361	20,594	12,518
Provision for income taxes	3,249	4,660	2,301
Net income	\$ 22,112	\$ 15,934	\$ 10,217
Less: Net income attributable to participating securities	1	14	29
Net income attributable to Class A and Class B common stockholders	\$ 22,111	\$ 15,920	\$ 10,188
Earnings per share attributable to Class A and Class B common stockholders:			
Basic	\$ 7.65	\$ 5.49	\$ 3.56
Diluted	\$ 7.57	\$ 5.39	\$ 3.49
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:			
Basic	2,890	2,901	2,863
Diluted	2,921	2,956	2,925
Share-based compensation expense included in costs and expenses:			
Cost of revenue	\$ 284	\$ 178	\$ 113
Research and development	3,022	2,820	2,494
Marketing and sales	511	436	368
General and administrative	335	289	243
Total share-based compensation expense	\$ 4,152	\$ 3,723	\$ 3,218

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net income	\$ 22,112	\$ 15,934	\$ 10,217
Other comprehensive income (loss):			
Change in foreign currency translation adjustment, net of tax	(450)	566	(152)
Change in unrealized gain/loss on available-for-sale investments and other, net of tax	(52)	(90)	(96)
Comprehensive income	<u>\$ 21,610</u>	<u>\$ 16,410</u>	<u>\$ 9,969</u>

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)

	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Par Value				
Balances at December 31, 2015	2,845	\$ —	\$ 34,886	\$ (455)	\$ 9,787	\$ 44,218
Impact of the adoption of new accounting pronouncement	—	—	39	—	1,666	1,705
Issuance of common stock for cash upon exercise of stock options	3	—	16	—	—	16
Issuance of common stock related to acquisitions	1	—	74	—	—	74
Issuance of common stock for settlement of RSUs	43	—	—	—	—	—
Shares withheld related to net share settlement	—	—	(6)	—	—	(6)
Share-based compensation, related to employee share-based awards	—	—	3,218	—	—	3,218
Other comprehensive loss	—	—	—	(248)	—	(248)
Net income	—	—	—	—	10,217	10,217
Balances at December 31, 2016	2,892	—	38,227	(703)	21,670	59,194
Issuance of common stock for cash upon exercise of stock options	3	—	13	—	—	13
Issuance of common stock related to acquisitions	2	—	323	—	—	323
Issuance of common stock for settlement of RSUs	43	—	—	—	—	—
Shares withheld related to net share settlement	(21)	—	(1,702)	—	(1,544)	(3,246)
Share-based compensation, related to employee share-based awards	—	—	3,723	—	—	3,723
Share repurchases	(13)	—	—	—	(2,070)	(2,070)
Other comprehensive income	—	—	—	476	—	476
Net income	—	—	—	—	15,934	15,934
Balances at December 31, 2017	2,906	—	40,584	(227)	33,990	74,347
Impact of the adoption of new accounting pronouncements	—	—	—	(31)	172	141
Issuance of common stock for cash upon exercise of stock options	2	—	15	—	—	15
Issuance of common stock for settlement of RSUs	44	—	—	—	—	—
Shares withheld related to net share settlement	(19)	—	(1,845)	—	(1,363)	(3,208)
Share-based compensation, related to employee share-based awards	—	—	4,152	—	—	4,152
Share repurchases	(79)	—	—	—	(12,930)	(12,930)
Other comprehensive loss	—	—	—	(502)	—	(502)
Net income	—	—	—	—	22,112	22,112
Balances at December 31, 2018	2,854	\$ —	\$ 42,906	\$ (760)	\$ 41,981	\$ 84,127

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income	\$ 22,112	\$ 15,934	\$ 10,217
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,315	3,025	2,342
Share-based compensation	4,152	3,723	3,218
Deferred income taxes	286	(377)	(457)
Other	(64)	24	30
Changes in assets and liabilities:			
Accounts receivable	(1,892)	(1,609)	(1,489)
Prepaid expenses and other current assets	(690)	(192)	(159)
Other assets	(159)	154	14
Accounts payable	221	43	14
Partners payable	157	95	67
Accrued expenses and other current liabilities	1,417	309	1,014
Deferred revenue and deposits	53	4	35
Other liabilities	(634)	3,083	1,262
Net cash provided by operating activities	29,274	24,216	16,108
Cash flows from investing activities			
Purchases of property and equipment, net	(13,915)	(6,733)	(4,491)
Purchases of marketable securities	(14,656)	(25,682)	(22,341)
Sales of marketable securities	12,358	9,444	13,894
Maturities of marketable securities	4,772	2,988	1,261
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	(137)	(122)	(123)
Other investing activities, net	(25)	(13)	8
Net cash used in investing activities	(11,603)	(20,118)	(11,792)
Cash flows from financing activities			
Taxes paid related to net share settlement of equity awards	(3,208)	(3,246)	(6)
Principal payments on capital lease and other financing obligations	—	—	(312)
Repurchases of Class A common stock	(12,879)	(1,976)	—
Net change in overdraft in cash pooling entities	500	—	—
Other financing activities, net	15	(13)	8
Net cash used in financing activities	(15,572)	(5,235)	(310)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(179)	232	(63)
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,920	(905)	3,943
Cash, cash equivalents, and restricted cash at beginning of the period	8,204	9,109	5,166
Cash, cash equivalents, and restricted cash at end of the period	\$ 10,124	\$ 8,204	\$ 9,109
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	\$ 10,019	\$ 8,079	\$ 8,903
Restricted cash, included in prepaid expenses and other current assets	10	18	106
Restricted cash, included in other assets	95	107	100
Total cash, cash equivalents, and restricted cash	\$ 10,124	\$ 8,204	\$ 9,109

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Supplemental cash flow data			
Cash paid during the period for:			
Interest	\$ 1	\$ —	\$ 11
Income taxes, net	\$ 3,762	\$ 2,117	\$ 1,210
Non-cash investing and financing activities:			
Net change in prepaids and liabilities related to property and equipment additions	\$ 918	\$ 495	\$ 136
Settlement of acquisition-related contingent consideration liability	\$ —	\$ 102	\$ 33
Change in unsettled repurchases of Class A common stock	\$ 51	\$ 94	\$ —

See Accompanying Notes to Consolidated Financial Statements.

FACEBOOK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Description of Business

Facebook was incorporated in Delaware in July 2004. Our mission is to give people the power to build community and bring the world closer together. We generate substantially all of our revenue from advertising.

Basis of Presentation

We prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Facebook, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical information and on various other assumptions that we believe are reasonable under the circumstances. GAAP requires us to make estimates and judgments in several areas, including, but not limited to, those related to income taxes, loss contingencies, fair value of acquired intangible assets and goodwill, collectability of accounts receivable, fair value of financial instruments, leases, useful lives of intangible assets and property and equipment, and revenue recognition. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates.

Revenue Recognition

On January 1, 2018, we adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition (Topic 605)*, using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605. The impact of adopting the new revenue standard was not material to our condensed consolidated financial statements and there was no adjustment to beginning retained earnings on January 1, 2018.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Revenue excludes sales and usage-based taxes where it has been determined that we are acting as a pass-through agent.

Revenue disaggregated by revenue source for the years ended December 31, 2018, 2017 and 2016 consists of the following (in millions):

	Year Ended December 31,		
	2018	2017 ⁽¹⁾	2016 ⁽¹⁾
Advertising	\$ 55,013	\$ 39,942	\$ 26,885
Payments and other fees	825	711	753
Total revenue	\$ 55,838	\$ 40,653	\$ 27,638

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Revenue disaggregated by geography, based on the billing address of our customer, consists of the following (in millions):

	Year Ended December 31,		
	2018	2017 ⁽¹⁾	2016 ⁽¹⁾
Revenue:			
US & Canada ⁽²⁾	\$ 25,727	\$ 19,065	\$ 13,432
Europe ⁽³⁾	13,631	10,126	6,792
Asia-Pacific	11,733	7,921	5,037
Rest of World ⁽³⁾	4,747	3,541	2,377
Total revenue	<u>\$ 55,838</u>	<u>\$ 40,653</u>	<u>\$ 27,638</u>

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

(2) United States revenue was \$24.10 billion, \$17.73 billion, and \$12.58 billion for the years ended December 31, 2018, 2017, and 2016.

(3) Europe includes Russia and Turkey, and Rest of World includes Africa, Latin America, and the Middle East.

Advertising

Advertising revenue is generated by displaying ad products on Facebook, Instagram, Messenger, and third-party affiliated websites or mobile applications. Marketers pay for ad products either directly or through their relationships with advertising agencies or resellers, based on the number of impressions delivered or the number of actions, such as clicks, taken by our users.

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We recognize revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to users. We recognize revenue from the delivery of action-based ads in the period in which a user takes the action the marketer contracted for. For advertising revenue arrangements where we are not the principal, we recognize revenue on a net basis.

We may accept a lower consideration than the amount promised per the contract for certain revenue transactions and certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration when estimating the amount of revenue to recognize. We believe that there will not be significant changes to our estimates of variable consideration.

Payments and Other Fees

Payments revenue is comprised of the net fee we receive from developers using our Payments infrastructure.

Other fees revenue consists primarily of revenue from the delivery of consumer hardware devices, as well as revenue from various other sources.

Deferred Revenue and Deposits

Deferred revenue consists of billings and payments from marketers in advance of revenue recognition. Deposits relate to unused balances held on behalf of our users who primarily use these balances to make purchases in games on our platform. Once this balance is utilized by a user, approximately 70% of this amount would then be payable to the developer and the balance would be recognized as revenue. The increase in the deferred revenue balance for the year ended December 31, 2018 was driven by prepayments from marketers, partially offset by revenue recognized that was included in the deferred revenue balance at the beginning of the period.

Our payment terms vary by the products or services offered. The term between billings and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

Deferred revenue and deposits consists of the following (in millions):

	December 31,	
	2018	2017
Deferred revenue	\$ 117	\$ 68
Deposits	30	30
Total deferred revenue and deposits	<u>\$ 147</u>	<u>\$ 98</u>

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within marketing and sales on our consolidated statements of income.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Cost of Revenue

Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers, such as facility and server equipment depreciation, salaries, benefits, and share-based compensation for employees on our operations teams, and energy and bandwidth costs. Cost of revenue also includes costs associated with partner arrangements, including traffic acquisition and content acquisition costs, credit card and other transaction fees related to processing customer transactions, and cost of consumer hardware device inventory sold.

Content acquisition costs

We license and pay to produce content in order to increase engagement on the platform. For licensed content, we capitalize the fee per title and record a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for viewing. The amounts capitalized are limited to estimated net realizable value or fair value on a per title basis. The portion available for viewing within one year is recognized as prepaid expenses and other current assets and the remaining portion as other assets on the consolidated balance sheets. For original content, we capitalize costs associated with the production, including development costs and direct costs, if those amounts are recoverable. Capitalized original content costs are included in other assets on the consolidated balance sheets. Capitalized costs are amortized in cost of revenue on the consolidated statements of income based on historical and estimated viewing patterns.

Capitalized content costs are reviewed when an event or change in circumstances indicates a change in the expected usefulness of the content or that the fair value may be less than amortized cost. If such changes are identified, capitalized content assets will be stated at the lower of unamortized cost, net realizable value or fair value. In addition, unamortized costs for assets that have been, or are expected to be, abandoned are written off.

Capitalized content acquisition costs have not been material to date.

Income Taxes

We record provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred income tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We recognize the deferred income tax effects of a change in tax rates in the period of the enactment.

We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. These uncertain tax positions include our estimates for transfer pricing that have been developed based upon analyses of appropriate arms-length prices. Similarly, our estimates related to uncertain tax positions concerning research tax credits are based on an assessment of whether our available documentation corroborating the nature of our activities supporting the tax credits will be sufficient. Although we believe that we have adequately reserved for our uncertain tax positions (including net interest and penalties), we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial position, results of operations, and cash flows.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (Tax Act) was enacted into law and the new legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction

of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, re-measuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously provided a provisional estimate of the effect of the Tax Act in our financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 31, 2018. See Note 12 in these notes to the consolidated financial statements for additional information.

Advertising Expense

Advertising costs are expensed when incurred and are included in marketing and sales expenses in the accompanying consolidated statements of income. We incurred advertising expenses of \$1.10 billion, \$324 million, and \$310 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Cash and Cash Equivalents, Marketable Securities, and Restricted Cash

Cash and cash equivalents primarily consist of cash on deposit with banks and investments in money market funds with maturities of 90 days or less from the date of purchase.

We hold investments in marketable securities, consisting of U.S. government securities, U.S. government agency securities, and corporate debt securities. We classify our marketable securities as available-for-sale investments in our current assets because they represent investments of cash available for current operations. Our available-for-sale investments are carried at estimated fair value with any unrealized gains and losses, net of taxes, included in accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses are charged against interest and other income (expense), net when a decline in fair value is determined to be other-than-temporary. We have not recorded any such impairment charge in the periods presented. We determine realized gains or losses on sale of marketable securities on a specific identification method, and record such gains or losses as interest and other income (expense), net.

We also maintain a multi-currency notional cash pool for our participating 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. We classify these overdraft balances within accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

We classify certain restricted cash balances within prepaid expenses and other current assets and other assets on the accompanying consolidated balance sheets based upon the term of the remaining restrictions.

Fair Value of Financial Instruments

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 -Quoted prices in active markets for identical assets or liabilities.

Level 2 -Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 -Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Our valuation techniques used to measure the fair value of money market funds and marketable debt securities were derived from quoted market prices or alternative pricing sources and models utilizing market observable inputs.

Accounts Receivable and Allowances

Accounts receivable are recorded and carried at the original invoiced amount less an allowance for any potential uncollectible amounts. We make estimates for the allowance for doubtful accounts and allowance for unbilled receivables based upon our assessment of various factors, including historical experience, the age of the accounts receivable balances, credit quality of our customers, current economic conditions, and other factors that may affect our ability to collect from customers.

Property and Equipment

Property and equipment, which includes amounts recorded under capital leases, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the remaining lease term, whichever is shorter.

The estimated useful lives of property and equipment are described below:

Property and Equipment	Useful Life
Network equipment	Three to 25 years
Buildings	Three to 30 years
Computer software, office equipment and other	Two to five years
Leased equipment and leasehold improvements	Lesser of estimated useful life or remaining lease term

Land and assets held within construction in progress are not depreciated. Construction in progress is related to the construction or development of property and equipment that have not yet been placed in service for their intended use.

The cost of maintenance and repairs is expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in income from operations.

Lease Obligations

We enter into lease arrangements for office space, land, facilities, data centers, and equipment under non-cancelable capital and operating leases. Certain of the operating lease agreements contain rent holidays, rent escalation provisions, and purchase options. Rent holidays and rent escalation provisions are considered in determining the straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease inception.

We record assets and liabilities for the estimated construction costs incurred by third parties under build-to-suit lease arrangements to the extent that we are involved in the construction of structural improvements or bear construction risk prior to commencement of a lease. As of December 31, 2018, we completed our build-to-suit lease arrangements and properly derecognized the associated assets on our consolidated balance sheet.

Loss Contingencies

We are involved in legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss in the notes to the consolidated financial statements.

We review the developments in our contingencies that could affect the amount of the provisions that has been previously recorded, and the matters and related possible losses disclosed. We make adjustments to our provisions and changes to our disclosures accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Significant judgment is required to determine both the probability and the estimated amount.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not

limited to, future expected cash flows from acquired users, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets

We evaluate the recoverability of property and equipment and finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any significant impairment charges during the years presented.

We review goodwill for impairment at least annually or more frequently if events or changes in circumstances would more likely than not reduce the fair value of our single reporting unit below its carrying value. As of December 31, 2018, no impairment of goodwill has been identified.

Acquired finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. We routinely review the remaining estimated useful lives of property and equipment and finite-lived intangible assets. If we reduce the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

Foreign Currency

Generally, the functional currency of our international subsidiaries is the local currency. We translate the financial statements of these subsidiaries to U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenue, costs, and expenses. Translation gains and losses are recorded in accumulated other comprehensive (loss) income as a component of stockholders' equity. As of December 31, 2018 and 2017, we had a cumulative translation loss, net of tax of \$466 million and \$16 million, respectively. Net losses resulting from foreign exchange transactions were \$213 million, \$6 million, and \$76 million for the years ended December 31, 2018, 2017, and 2016, respectively. These losses were recorded as interest and other income (expense), net in our consolidated statements of income.

Credit Risk and Concentration

Our financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents, restricted cash, marketable securities, and accounts receivable. The majority of cash equivalents consists of short-term money market funds, which are managed by reputable financial institutions. Marketable securities consist of investments in U.S. government securities, U.S. government agency securities, and corporate debt securities. Our investment policy limits investment instruments to U.S. government securities, U.S. government agency securities, and corporate debt securities with the main objective of preserving capital and maintaining liquidity.

Accounts receivable are typically unsecured and are derived from revenue earned from customers across different industries and countries. We generated 43%, 44%, and 46% of our revenue for the years ended December 31, 2018, 2017, and 2016, respectively, from marketers and developers based in the United States, with the majority of revenue outside of the United States coming from customers located in western Europe, China, Canada, Australia, and Brazil.

We perform ongoing credit evaluations of our customers, and generally do not require collateral. We maintain an allowance for estimated credit losses. During the years ended December 31, 2018, 2017, and 2016, our bad debt expenses were \$77 million, \$48 million, and \$66 million, respectively. In the event that accounts receivable collection cycles deteriorate, our operating results and financial position could be adversely affected.

No customer represented 10% or more of total revenue during the years ended December 31, 2018, 2017, and 2016.

Segments

Our chief operating decision-maker is our Chief Executive Officer who makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis. There are no segment managers who are held accountable by the chief operating decision-maker, or anyone else, for operations, operating results, and planning for levels or components below the consolidated unit level. Accordingly, we have determined that we have a single reportable segment and operating segment structure.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, which supersedes the revenue recognition requirements in Topic 605. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. See *Revenue Recognition* above for further details.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory* (ASU 2016-16), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. We adopted the new standard effective January 1, 2018, using the modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the effective date, which was not material to our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows. We adopted the new standard effective January 1, 2018, using the retrospective transition approach. The reclassified restricted cash balances from investing activities to changes in cash, cash equivalents and restricted cash on the consolidated statements of cash flows were not material for all periods presented.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. We adopted the new standard effective January 1, 2018 on a prospective basis. The new standard did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02), which allows companies to reclassify stranded tax effects resulting from the Tax Act, from accumulated other comprehensive income to retained earnings. The new standard is effective for us beginning January 1, 2019, with early adoption permitted. We elected to early adopt the new standard at the beginning of the third quarter of 2018 using the aggregate portfolio approach. The amount of stranded tax effects that were reclassified from accumulated other comprehensive loss to retained earnings was not material.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We will adopt the new standard effective January 1, 2019 on a modified retrospective basis and will not restate comparative periods. We will elect the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We will also elect to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term. We estimate approximately \$6 billion would be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. Other than disclosed, we do not expect the new standard to have a material impact on our remaining consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

Note 2. Earnings per Share

We compute earnings per share (EPS) of Class A and Class B common stock using the two-class method required for participating securities. We consider restricted stock awards to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares.

Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding, adjusted for outstanding shares that are subject to repurchase.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, such as awards under our equity compensation plans and inducement awards under separate non-plan restricted stock unit (RSU) award agreements. In addition, the computation of the diluted EPS of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted EPS of Class B common stock does not assume the conversion of those shares to Class A common stock. Diluted EPS attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

RSUs with anti-dilutive effect were excluded from the EPS calculation and they were not material for the years ended December 31, 2018 , 2017 , and 2016 , respectively.

Basic and diluted EPS are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in millions, except per share amounts):

	Year Ended December 31,					
	2018		2017		2016	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic EPS:						
Numerator						
Net income	\$ 18,411	\$ 3,701	\$ 13,034	\$ 2,900	\$ 8,270	\$ 1,947
Less: Net income attributable to participating securities	1	—	12	2	24	5
Net income attributable to common stockholders	<u>\$ 18,410</u>	<u>\$ 3,701</u>	<u>\$ 13,022</u>	<u>\$ 2,898</u>	<u>\$ 8,246</u>	<u>\$ 1,942</u>
Denominator						
Weighted average shares outstanding	2,406	484	2,375	528	2,323	548
Less: Shares subject to repurchase	—	—	2	—	6	2
Number of shares used for basic EPS computation	<u>2,406</u>	<u>484</u>	<u>2,373</u>	<u>528</u>	<u>2,317</u>	<u>546</u>
Basic EPS	<u>\$ 7.65</u>	<u>\$ 7.65</u>	<u>\$ 5.49</u>	<u>\$ 5.49</u>	<u>\$ 3.56</u>	<u>\$ 3.56</u>
Diluted EPS:						
Numerator						
Net income attributable to common stockholders	\$ 18,410	\$ 3,701	\$ 13,022	\$ 2,898	\$ 8,246	\$ 1,942
Reallocation of net income attributable to participating securities	1	—	14	—	29	—
Reallocation of net income as a result of conversion of Class B to Class A common stock	3,701	—	2,898	—	1,942	—
Reallocation of net income to Class B common stock	—	(16)	—	(13)	—	14
Net income attributable to common stockholders for diluted EPS	<u>\$ 22,112</u>	<u>\$ 3,685</u>	<u>\$ 15,934</u>	<u>\$ 2,885</u>	<u>\$ 10,217</u>	<u>\$ 1,956</u>
Denominator						
Number of shares used for basic EPS computation	2,406	484	2,373	528	2,317	546
Conversion of Class B to Class A common stock	484	—	528	—	546	—
Weighted average effect of dilutive securities:						
Employee stock options	2	2	4	4	6	6
RSUs	29	1	49	3	49	5
Shares subject to repurchase and other	—	—	2	—	7	3
Number of shares used for diluted EPS computation	<u>2,921</u>	<u>487</u>	<u>2,956</u>	<u>535</u>	<u>2,925</u>	<u>560</u>
Diluted EPS	<u>\$ 7.57</u>	<u>\$ 7.57</u>	<u>\$ 5.39</u>	<u>\$ 5.39</u>	<u>\$ 3.49</u>	<u>\$ 3.49</u>

Note 3. Cash and Cash Equivalents, and Marketable Securities

The following table sets forth the cash and cash equivalents, and marketable securities (in millions):

	December 31,	
	2018	2017
Cash and cash equivalents:		
Cash	\$ 2,713	\$ 2,212
Money market funds	6,792	5,268
U.S. government securities	90	66
U.S. government agency securities	54	25
Certificate of deposits and time deposits	369	440
Corporate debt securities	1	68
Total cash and cash equivalents	10,019	8,079
Marketable securities:		
U.S. government securities	13,836	12,766
U.S. government agency securities	8,333	10,944
Corporate debt securities	8,926	9,922
Total marketable securities	31,095	33,632
Total cash and cash equivalents, and marketable securities	\$ 41,114	\$ 41,711

The gross unrealized losses on our marketable securities were \$357 million and \$289 million as of December 31, 2018 and 2017, respectively. The gross unrealized gains for both periods were not significant. In addition, gross unrealized losses that had been in a continuous loss position for 12 months or longer were \$332 million and \$169 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018, we considered the decreases in market value on our marketable securities to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.

The following table classifies our marketable securities by contractual maturities (in millions):

	December 31,	
	2018	2017
Due in one year	\$ 9,746	\$ 7,976
Due after one year to five years	21,349	25,656
Total	\$ 31,095	\$ 33,632

Note 4. Fair Value Measurement

The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy (in millions):

Description	December 31, 2018	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$ 6,792	\$ 6,792	\$ —	\$ —
U.S. government securities	90	90	—	—
U.S. government agency securities	54	54	—	—
Certificate of deposits and time deposits	369	—	369	—
Corporate debt securities	1	—	1	—
Marketable securities:				
U.S. government securities	13,836	13,836	—	—
U.S. government agency securities	8,333	8,333	—	—
Corporate debt securities	8,926	—	8,926	—
Total cash equivalents and marketable securities	\$ 38,401	\$ 29,105	\$ 9,296	\$ —

Description	December 31, 2017	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$ 5,268	\$ 5,268	\$ —	\$ —
U.S. government securities	66	66	—	—
U.S. government agency securities	25	25	—	—
Certificate of deposits and time deposits	440	—	440	—
Corporate debt securities	68	—	68	—
Marketable securities:				
U.S. government securities	12,766	12,766	—	—
U.S. government agency securities	10,944	10,944	—	—
Corporate debt securities	9,922	—	9,922	—
Total cash equivalents and marketable securities	\$ 39,499	\$ 29,069	\$ 10,430	\$ —

We classify our cash equivalents and marketable securities within Level 1 or Level 2 because we use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value.

Note 5. Property and Equipment

Property and equipment consists of the following (in millions):

	December 31,	
	2018	2017
Land	\$ 899	\$ 798
Buildings	7,401	4,909
Leasehold improvements	1,841	959
Network equipment	13,017	7,998
Computer software, office equipment and other	1,187	681
Construction in progress	7,228	2,992
Total	31,573	18,337
Less: Accumulated depreciation	(6,890)	(4,616)
Property and equipment, net	\$ 24,683	\$ 13,721

Depreciation expense on property and equipment was \$3.68 billion , \$2.33 billion , and \$1.59 billion during 2018 , 2017 , and 2016 , respectively.

Property and equipment as of December 31, 2018 and 2017 includes \$1.06 billion and \$533 million , respectively, acquired under capital lease agreements, of which a substantial majority, is included in network equipment. Accumulated depreciation of property and equipment acquired under these capital leases was \$217 million and \$101 million at December 31, 2018 and 2017 , respectively.

Construction in progress includes costs mostly related to construction of data centers, network equipment infrastructure to support our data centers around the world, and office buildings. The construction of office buildings as of December 31, 2017 included our build-to-suit lease arrangements which were completed and derecognized during 2018.

No interest was capitalized during the years ended December 31, 2018 , 2017 and 2016 .

Note 6. Goodwill and Intangible Assets

During the year ended December 31, 2018 , we purchased certain intangible assets and completed several business acquisitions that were not material to our consolidated financial statements, either individually or in the aggregate. Accordingly, pro forma historical results of operations related to these business acquisitions during the year ended December 31, 2018 have not been presented. We have included the financial results of these business acquisitions in our consolidated financial statements from their respective dates of acquisition.

Goodwill generated from all business acquisitions completed during the year ended December 31, 2018 was primarily attributable to expected synergies from future growth and potential monetization opportunities. The amount of goodwill generated during this period that was deductible for tax purposes was not material.

The changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 are as follows (in millions):

Balance as of December 31, 2016	\$ 18,122
Goodwill acquired	90
Effect of currency translation adjustment	9
Balance as of December 31, 2017	\$ 18,221
Goodwill acquired	88
Effect of currency translation adjustment	(8)
Balance as of December 31, 2018	\$ 18,301

Intangible assets consist of the following (in millions):

	Weighted-Average Remaining Useful Lives (in years)	December 31, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired users	2.8	\$ 2,056	\$ (1,260)	\$ 796	\$ 2,056	\$ (971)	\$ 1,085
Acquired technology	1.2	1,002	(871)	131	972	(711)	261
Acquired patents	5.2	805	(565)	240	785	(499)	286
Trade names	1.4	629	(517)	112	629	(406)	223
Other	2.4	162	(147)	15	162	(133)	29
Total intangible assets	2.9	<u>\$ 4,654</u>	<u>\$ (3,360)</u>	<u>\$ 1,294</u>	<u>\$ 4,604</u>	<u>\$ (2,720)</u>	<u>\$ 1,884</u>

Amortization expense of intangible assets for the years ended December 31, 2018 , 2017 , and 2016 was \$640 million , \$692 million , and \$751 million , respectively.

As of December 31, 2018 , expected amortization expense for the unamortized acquired intangible assets for the next five years and thereafter is as follows (in millions):

2019	\$ 553
2020	378
2021	273
2022	33
2023	26
Thereafter	31
Total	<u>\$ 1,294</u>

Note 7. Liabilities

The components of accrued expenses and other current liabilities are as follows (in millions):

	December 31,	
	2018	2017
Accrued compensation and benefits	\$ 1,203	\$ 790
Accrued property and equipment	1,531	685
Overdraft in cash pooling entities	500	—
Accrued taxes	491	340
Other current liabilities	1,784	1,077
Accrued expenses and other current liabilities	<u>\$ 5,509</u>	<u>\$ 2,892</u>

The components of other liabilities are as follows (in millions):

	December 31,	
	2018	2017
Income tax payable	\$ 4,655	\$ 5,372
Deferred tax liabilities	673	50
Other liabilities	862	995
Other liabilities	<u>\$ 6,190</u>	<u>\$ 6,417</u>

Note 8. Long-term Debt

In May 2016, we entered into a \$2.0 billion senior unsecured revolving credit facility, and any amounts outstanding under this facility will be due and payable on May 20, 2021. As of December 31, 2018, no amounts had been drawn down and we were in compliance with the covenants under this facility.

Note 9. Commitments and Contingencies

Commitments

Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, data centers, land, and colocations with original lease periods expiring between 2019 and 2093. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. Certain of these arrangements have free rent periods or escalating rent payment provisions, and we recognize rent expense under such arrangements on a straight-line basis.

The following is a schedule, by years, of the future minimum lease payments required under non-cancelable operating leases as of December 31, 2018 (in millions):

	Operating Leases
2019	\$ 698
2020	946
2021	1,055
2022	1,048
2023	1,054
Thereafter	9,850
Total minimum lease payments	\$ 14,651

Operating lease expense was \$629 million, \$363 million, and \$269 million for the years ended December 31, 2018, 2017 and 2016, respectively. We fully repaid all our capital lease obligations during 2016.

Guarantee

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.

Other contractual commitments

We also have \$6.17 billion of non-cancelable contractual commitments as of December 31, 2018, primarily related to network infrastructure and our data center operations. These commitments are primarily due within five years.

Contingencies

Legal Matters

Beginning on March 20, 2018, multiple putative class actions and derivative actions were filed in state and federal courts in the United States and elsewhere against us and certain of our directors and officers alleging violations of securities laws, breach of fiduciary duties, and other causes of action in connection with our platform and user data practices as well as the misuse of certain data by a developer that shared such data with third parties in violation of our terms and policies, and seeking unspecified damages and injunctive relief. Beginning on July 27, 2018, two putative class actions were filed in federal court in the United States against us and certain of our directors and officers alleging violations of securities laws in connection with the disclosure of our earnings results for the second quarter of 2018, and seeking unspecified damages. These two actions subsequently were transferred and consolidated in the U.S. District Court for the Northern District of California with the putative securities class action described above relating to our platform and user data practices. We believe these lawsuits are without merit, and we are vigorously defending them. In addition, our platform and user data practices, as well as the events surrounding the misuse of certain data by a developer, became

the subject of U.S. Federal Trade Commission, Securities and Exchange Commission, state attorneys general, and other government inquiries in the United States, Europe, and other jurisdictions.

Beginning on September 28, 2018, multiple putative class actions were filed in state and federal courts in the United States and elsewhere against us alleging violations of consumer protection laws and other causes of action in connection with a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens and access certain profile information from user accounts on Facebook, and seeking unspecified damages and injunctive relief. We believe these lawsuits are without merit, and we are vigorously defending them. In addition, the events surrounding this cyber-attack became the subject of Irish Data Protection Commission, U.S. Federal Trade Commission and other government inquiries in the United States, Europe, and other jurisdictions.

In addition, from time to time, we are subject to litigation and other proceedings involving law enforcement and other regulatory agencies, including in particular in Brazil and Europe, in order to ascertain the precise scope of our legal obligations to comply with the requests of those agencies, including our obligation to disclose user information in particular circumstances. A number of such instances have resulted in the assessment of fines and penalties against us. We believe we have multiple legal grounds to satisfy these requests or prevail against associated fines and penalties, and we intend to vigorously defend such fines and penalties.

Although we believe that it is reasonably possible that we may incur a substantial loss in some of the cases, actions, or inquiries described above, we are currently unable to estimate the amount of such losses or a range of possible losses.

We are also party to various other legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business. With respect to these matters, we evaluate the developments on a regular basis and accrue a liability when we believe a loss is probable and the amount can be reasonably estimated.

We believe that the amount or any estimable range of reasonably possible or probable loss will not, either individually or in the aggregate, have a material adverse effect on our business and consolidated financial statements. However, the outcome of these matters is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected.

For information regarding income tax contingencies, see Note 12—Income Taxes.

Indemnifications

In the normal course of business, to facilitate transactions of services and products, we have agreed to indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers, directors, and certain employees, and our certificate of incorporation and bylaws contain similar indemnification obligations.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our consolidated financial statements. In our opinion, as of December 31, 2018, there was not at least a reasonable possibility we had incurred a material loss with respect to indemnification of such parties. We have not recorded any liability for costs related to indemnification through December 31, 2018.

Note 10. Stockholders' Equity

Common Stock

Our certificate of incorporation authorizes the issuance of Class A common stock and Class B common stock. As of December 31, 2018, we are authorized to issue 5,000 million shares of Class A common stock and 4,141 million shares of Class B common stock, each with a par value of \$0.000006 per share. Holders of our Class A common stock and Class B common stock are entitled to dividends when, as and if, declared by our board of directors, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. As of December 31, 2018, we have not declared any dividends and our credit facility contains restrictions on our ability to pay dividends. The holder of each share of Class A common stock is entitled to one vote, while the holder of each share of Class B common stock is entitled to ten votes. Shares of our Class B common stock are convertible into an equivalent number of shares of our Class A common stock and generally convert into shares of our Class A common stock upon

transfer. Class A common stock and Class B common stock are referred to as common stock throughout the notes to these financial statements, unless otherwise noted.

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.

Share Repurchase Program

Our board of directors has authorized a share repurchase program that commenced in 2017 and does not have an expiration date. During the second quarter of 2018, we completed repurchases under the original authorization to purchase up to \$6.0 billion of our Class A common stock. In April 2018, the authorization for the repurchase of our Class A common stock was increased by an additional \$9.0 billion, and we completed repurchases under this authorization during the fourth quarter of 2018. 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.

In December 2018, our board of directors authorized an additional \$9.0 billion of repurchases under this program. The timing and actual number of shares repurchased under this program depend on a variety of factors, including price, general business and market conditions, and other investment opportunities, and shares may be repurchased through open market purchases or privately negotiated transactions, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. As of December 31, 2018, \$9.0 billion remained available and authorized for repurchases.

Share-based Compensation Plans

We maintain two share-based employee compensation plans: the 2012 Equity Incentive Plan, which was amended in each of June 2016 and February 2018 (Amended 2012 Plan), and the 2005 Stock Plan (collectively, Stock Plans). Our Amended 2012 Plan serves as the successor to our 2005 Stock Plan and provides for the issuance of incentive and nonstatutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance shares, and stock bonuses to qualified employees, directors and consultants. Outstanding awards under the 2005 Stock Plan continue to be subject to the terms and conditions of the 2005 Stock Plan. Shares that are withheld in connection with the net settlement of RSUs or forfeited under our Stock Plans are added to the reserves of the Amended 2012 Plan. We account for forfeitures as they occur.

As of December 31, 2018, there were 83 million shares reserved for future issuance under our Amended 2012 Plan. The number of shares reserved for issuance under our Amended 2012 Plan increases automatically on January 1 of each of the calendar years during the term of the Amended 2012 Plan, which will continue through April 2026 unless terminated earlier by our board of directors or a committee thereof, by a number of shares of Class A common stock equal to the lesser of (i) 2.5% of the total issued and outstanding shares of our Class A common stock as of the immediately preceding December 31st or (ii) a number of shares determined by our board of directors. Pursuant to this automatic increase provision, our board of directors approved an increase of 60 million shares reserved for issuance effective January 1, 2019.

The following table summarizes the activities of stock option awards under the Stock Plans for the year ended December 31, 2018:

	Shares Subject to Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ⁽¹⁾
	(in thousands)		(in years)	(in millions)
Balance as of December 31, 2017	3,078	\$ 10.06		
Stock options exercised	(1,941)	\$ 7.90		
Balances at December 31, 2018	1,137	\$ 13.74	1.7	\$ 133
Stock options exercisable as of December 31, 2018	1,137	\$ 13.74	1.7	\$ 133

- (1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the official closing price of our Class A common stock of \$131.09, as reported on the Nasdaq Global Select Market on December 31, 2018.

There were no options granted, forfeited, or canceled for the year ended December 31, 2018 . The aggregate intrinsic value of the options exercised in the years ended December 31, 2018 , 2017 , and 2016 was \$315 million , \$359 million , and \$309 million , respectively. The total grant date fair value of stock options vested during the years ended December 31, 2018 , 2017 , and 2016 was not material.

The following table summarizes the activities for our unvested RSUs for the year ended December 31, 2018 :

	Unvested RSUs ⁽¹⁾	
	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested at December 31, 2017	81,214	\$ 110.49
Granted	38,283	\$ 168.38
Vested	(43,396)	\$ 106.59
Forfeited	(8,803)	\$ 119.25
Unvested at December 31, 2018	67,298	\$ 144.77

(1) Unvested shares at December 31, 2017 included an inducement award issued in connection with the WhatsApp acquisition in 2014, which was subject to the terms, restrictions, and conditions of a separate non-plan RSU award agreement. This inducement award was no longer outstanding as of December 31, 2018.

The fair value as of the respective vesting dates of RSUs that vested during the years ended December 31, 2018 , 2017 , and 2016 was \$7.57 billion , \$6.76 billion , and \$4.92 billion , respectively.

As of December 31, 2018 , there was \$8.96 billion of unrecognized share-based compensation expense, which was related to RSUs. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately three years based on vesting under the award service conditions.

Note 11. Interest and other income (expense), net

The following table presents the detail of interest and other income (expense), net, for the periods presented (in millions):

	Year Ended December 31,		
	2018	2017	2016
Interest income	\$ 661	\$ 398	\$ 176
Interest expense	(9)	(6)	(10)
Foreign currency exchange losses, net	(213)	(6)	(76)
Other	9	5	1
Interest and other income (expense), net	\$ 448	\$ 391	\$ 91

Note 12. Income Taxes

The components of income before provision for income taxes for the years ended December 31, 2018, 2017, and 2016 are as follows (in millions):

	Year Ended December 31,		
	2018	2017	2016
Domestic	\$ 8,800	\$ 7,079	\$ 6,368
Foreign	16,561	13,515	6,150
Income before provision for income taxes	<u>\$ 25,361</u>	<u>\$ 20,594</u>	<u>\$ 12,518</u>

The provision for income taxes consisted of the following (in millions):

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ 1,747	\$ 4,455	\$ 2,384
State	176	190	179
Foreign	1,031	389	195
Total current tax expense	<u>2,954</u>	<u>5,034</u>	<u>2,758</u>
Deferred:			
Federal	316	(296)	(414)
State	34	(33)	(18)
Foreign	(55)	(45)	(25)
Total deferred tax expense/(benefits)	<u>295</u>	<u>(374)</u>	<u>(457)</u>
Provision for income taxes	<u>\$ 3,249</u>	<u>\$ 4,660</u>	<u>\$ 2,301</u>

A reconciliation of the U.S. federal statutory income tax rate of 21.0% to our effective tax rate is as follows (in percentages):

	Year Ended December 31,		
	2018	2017	2016
U.S. federal statutory income tax rate	21.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	0.7	0.6	1.0
Research tax credits	(1.0)	(0.9)	(0.7)
Share-based compensation	0.3	0.4	1.0
Excess tax benefits related to share-based compensation	(2.6)	(5.8)	(7.0)
Effect of non-U.S. operations	(5.9)	(18.6)	(12.8)
Effect of U.S. tax law change ⁽¹⁾	—	11.0	—
Other	0.3	0.9	1.9
Effective tax rate	<u>12.8 %</u>	<u>22.6 %</u>	<u>18.4 %</u>

- (1) Due to the Tax Act which was enacted in December 2017, provisional one-time mandatory transition tax on accumulated foreign earnings was accrued as of December 31, 2017. In addition, deferred taxes were derecognized for previous estimated tax liabilities that would arise upon repatriation of a portion of these earnings in the foreign jurisdictions.

Our deferred tax assets (liabilities) are as follows (in millions):

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforward	\$ 1,825	\$ 1,300
Tax credit carryforward	668	509
Share-based compensation	270	385
Accrued expenses and other liabilities	487	381
Other	153	131
Total deferred tax assets	3,403	2,706
Less: valuation allowance	(600)	(438)
Deferred tax assets, net of valuation allowance	2,803	2,268
Deferred tax liabilities:		
Depreciation and amortization	(1,401)	(622)
Purchased intangible assets	(195)	(309)
Deferred taxes on foreign income	—	(88)
Total deferred tax liabilities	(1,596)	(1,019)
Net deferred tax assets	\$ 1,207	\$ 1,249

The Tax Act reduces the U.S. statutory corporate tax rate from 35% to 21% for our tax years beginning in 2018, which resulted in the re-measurement of the federal portion of our deferred tax assets as of December 31, 2017 from the 35% to 21% tax rate. The valuation allowance was approximately \$600 million and \$438 million as of December 31, 2018 and 2017, respectively, mostly related to state tax credits that we do not believe will ultimately be realized.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously provided a provisional estimate of the effect of the Tax Act in our financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 31, 2018.

As of December 31, 2018, the U.S. federal and state net operating loss carryforwards were \$7.88 billion and \$2.22 billion, which will begin to expire in 2033 and 2032, respectively, if not utilized. We have federal tax credit carryforwards of \$290 million, which will begin to expire in 2033, if not utilized, and state tax credit carryforwards of \$1.91 billion, most of which do not expire.

Utilization of our net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

The Tax Act imposes a mandatory transition tax on accumulated foreign earnings and generally eliminates US taxes on foreign subsidiary distribution. As a result, earnings in foreign jurisdictions are available for distribution to the U.S. without incremental U.S. taxes.

The following table reflects changes in the gross unrecognized tax benefits (in millions):

	Year Ended December 31,		
	2018	2017	2016
Gross unrecognized tax benefits-beginning of period	\$ 3,870	\$ 3,309	\$ 3,017
Increases related to prior year tax positions	457	72	32
Decreases related to prior year tax positions	(396)	(34)	(36)
Increases related to current year tax positions	831	536	307
Decreases related to settlements of prior year tax positions	(84)	(13)	(11)
Gross unrecognized tax benefits-end of period	\$ 4,678	\$ 3,870	\$ 3,309

During all years presented, we recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of income. The amount of interest and penalties accrued as of December 31, 2018 and 2017 was \$340 million and \$154 million, respectively.

If the balance of gross unrecognized tax benefits of \$4.68 billion as of December 31, 2018 were realized in a future period, this would result in a tax benefit of \$2.94 billion within our provision of income taxes at such time.

On July 27, 2015, the United States Tax Court (Tax Court) issued an opinion in *Altera Corp. v. Commissioner* (Tax Court Opinion), which concluded that related parties in a cost sharing arrangement are not required to share expenses related to share-based compensation. The Tax Court Opinion was appealed by the Commissioner to the Ninth Circuit Court of Appeals (Ninth Circuit). On July 24, 2018, the Ninth Circuit issued an opinion (Ninth Circuit Opinion) that reversed the Tax Court Opinion. The Ninth Circuit Opinion was subsequently withdrawn and the case is being reheard. Since the Ninth Circuit Opinion was withdrawn, we continue to treat our share-based compensation expense in accordance with the Tax Court Opinion. We also continue to monitor developments in this case and any impact the final opinion could have on our consolidated financial statements.

We are subject to taxation in the United States and various other state and foreign jurisdictions. The material jurisdictions in which we are subject to potential examination include the United States and Ireland. We are under examination by the Internal Revenue Service (IRS) for our 2014 through 2016 tax years and by the Ireland tax authorities for our 2012 through 2015 tax years. Our 2017 tax year remains open to examination by the IRS. Our 2016 and subsequent tax years remain open to examination in Ireland.

In July 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS related to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year. While the Notice applies only to the 2010 tax year, the IRS states that it will also apply its position for tax years subsequent to 2010, which, if the IRS prevails in its position, could result in an additional federal tax liability of an estimated, aggregate amount of approximately up to \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the position of the IRS and have filed a petition in the Tax Court challenging the Notice. As of December 31, 2018, we have not resolved this matter, and proceedings continue in the Tax Court. In March 2018, we received a second Notice from the IRS in conjunction with the examination of our 2011 through 2013 tax years. The IRS applied its position from the 2010 tax year to each of these years and also proposed new adjustments related to other transfer pricing with our foreign subsidiaries and certain tax credits that we claimed. If the IRS prevails in its position for these new adjustments, this could result in an additional federal tax liability of up to approximately \$680 million in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the positions of the IRS in the second Notice and have filed a petition in the Tax Court challenging the second Notice. We have previously accrued an estimated unrecognized tax benefit consistent with the guidance in ASC 740 that is lower than the potential additional federal tax liability from the positions taken by the IRS in the two Notices. In addition, if the IRS prevails in its positions related to transfer pricing with our foreign subsidiaries, the additional tax that we would owe would be partially offset by a reduction in the tax that we owe under the mandatory transition tax on accumulated foreign earnings from the Tax Act.

We believe that adequate amounts have been reserved in accordance with ASC 740 for any adjustments to the provision for income taxes or other tax items that may ultimately result from these examinations. The timing of the resolution, settlement, and closure of any audits is highly uncertain, and it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. Given the number of years remaining that are subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits. If the taxing authorities prevail in the assessment of additional tax due, the assessed tax, interest, and penalties, if any, could have a material adverse impact on our financial position, results of operations, and cash flows.

Note 13. Geographical Information

The following table sets forth property and equipment, net by geographic area (in millions):

	December 31,	
	2018	2017
Property and equipment, net:		
United States	\$ 18,950	\$ 10,406
Rest of the world ⁽¹⁾	5,733	3,315
Total property and equipment, net	\$ 24,683	\$ 13,721

(1) No individual country, other than disclosed above, exceeded 10% of our total property and equipment, net for any period presented.

For information regarding revenue disaggregated by geography, see Note 1—Summary of Significant Accounting Policies, Revenue Recognition.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer (CEO) and chief financial officer (CFO), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have concluded that as of December 31, 2018, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2018 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report with respect to our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the fourth quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 9B. Other Information

In September 2017, we filed a Current Report on Form 8-K announcing that Mark Zuckerberg anticipated selling 35 million to 75 million shares of Facebook stock over a period of approximately 18 months from the date of the announcement in order to fund the philanthropic initiatives of Mr. Zuckerberg and his wife, Priscilla Chan, in education, science and advocacy. Mr. Zuckerberg has informed us that following such time period he intends to continue to sell shares of Facebook stock from time to time, primarily to continue to fund his philanthropic initiatives. Any sale of shares beneficially owned by Mr. Zuckerberg will be conducted pursuant to a trading plan established pursuant to Rule 10b5-1 under the Exchange Act and will be disclosed publicly in accordance with the rules established by the U.S. Securities and Exchange Commission under Section 16 of the Exchange Act.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (SEC) within 120 days of the fiscal year ended December 31, 2018 .

Our board of directors has adopted a Code of Conduct applicable to all officers, directors and employees, which is available on our website (investor.fb.com) under "Corporate Governance." We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Conduct by posting such information on the website address and location specified above.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 .

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 .

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 .

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 .

PART IV

Item 15. Exhibits, Financial Statement Schedules

We have filed the following documents as part of this Form 10-K:

1. Consolidated Financial Statements:

	Page No.
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>56</u>
<u>Consolidated Balance Sheets</u>	<u>58</u>
<u>Consolidated Statements of Income</u>	<u>59</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>60</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>61</u>
<u>Consolidated Statements of Cash Flows</u>	<u>62</u>
<u>Notes to Consolidated Financial Statements</u>	<u>64</u>

2. Financial Statement Schedules

All schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is otherwise included.

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	<u>Restated Certificate of Incorporation.</u>	10-Q	001-35551	3.1	July 31, 2012	
3.2	<u>Amended and Restated Bylaws.</u>	10-Q	001-35551	3.2	July 31, 2012	
4.1	<u>Form of Class A Common Stock Certificate.</u>	S-1	333-179287	4.1	February 8, 2012	
4.2	<u>Form of Class B Common Stock Certificate.</u>	S-8	333-181566	4.4	May 21, 2012	
4.3	<u>Form of "Type I" Holder Voting Agreement, between Registrant, Mark Zuckerberg, and certain parties thereto.</u>	S-1	333-179287	4.3	February 8, 2012	
10.1+	<u>Form of Indemnification Agreement.</u>	S-1	333-179287	10.1	February 8, 2012	
10.2(A)+	<u>2005 Stock Plan, as amended.</u>	10-K	001-35551	10.2(A)	February 1, 2013	
10.2(B)+	<u>2005 Stock Plan forms of award agreements.</u>	S-1	333-179287	10.2	February 8, 2012	
10.3(A)+	<u>2012 Equity Incentive Plan, as amended.</u>	10-Q	001-35551	10.1	April 26, 2018	
10.3(B)+	<u>2012 Equity Incentive Plan forms of award agreements.</u>	10-Q	001-35551	10.2	July 31, 2012	
10.3(C)+	<u>2012 Equity Incentive Plan forms of award agreements (Additional Forms).</u>	10-K	001-35551	10.3(C)	January 29, 2015	
10.3(D)+	<u>2012 Equity Incentive Plan forms of award agreements (Additional Forms).</u>	10-Q	001-35551	10.1	May 4, 2017	
10.3(E)+	<u>2012 Equity Incentive Plan forms of award agreements (Additional Forms).</u>	10-Q	001-35551	10.1	July 27, 2017	
10.3(F)+	<u>2012 Equity Incentive Plan forms of award agreements (Additional Forms).</u>	10-Q	001-35551	10.2	April 26, 2018	
10.3(G)+	<u>2012 Equity Incentive Plan forms of award agreements (Additional Forms).</u>					X
10.4+	<u>2018 Bonus Plan.</u>	10-Q	001-35551	10.3	April 26, 2018	
10.5+	<u>Amended and Restated Offer Letter, dated January 27, 2012, between Registrant and Mark Zuckerberg.</u>	S-1	333-179287	10.6	February 8, 2012	
10.6+	<u>Amended and Restated Employment Agreement, dated January 27, 2012, between Registrant and Sheryl K. Sandberg.</u>	S-1	333-179287	10.7	February 8, 2012	

10.7+	<u>Amended and Restated Offer Letter, dated May 2, 2014, between Registrant and Christopher Cox.</u>	10-K	001-35551	10.8	January 29, 2015	
10.8+	<u>Amended and Restated Offer Letter, dated January 27, 2012, between Registrant and Mike Schroepfer.</u>	S-1	333-179287	10.9	February 8, 2012	
10.11+	<u>Offer Letter, dated August 25, 2014, between Registrant and David M. Wehner.</u>	10-K	001-35551	10.10	January 29, 2015	
10.12+	<u>Offer Letter, dated December 8, 2017, between Registrant and Kenneth L. Chenault.</u>	10-Q	001-35551	10.4	April 26, 2018	
10.13+	<u>Offer Letter, dated April 23, 2018, between Registrant and Jeffrey D. Zients.</u>	10-Q	001-35551	10.1	July 26, 2018	
21.1	<u>List of subsidiaries.</u>					X
23.1	<u>Consent of Independent Registered Public Accounting Firm.</u>					X
31.1	<u>Certification of Mark Zuckerberg, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>					X
31.2	<u>Certification of David M. Wehner, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>					X
32.1#	<u>Certification of Mark Zuckerberg, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>					X
32.2#	<u>Certification of David M. Wehner, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

+ Indicates a management contract or compensatory plan.

This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on this 31st day of January 2019 .

FACEBOOK, INC.

Date: January 31, 2019 /s/ David M. Wehner

David M. Wehner

Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David M. Wehner and David W. Kling, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Mark Zuckerberg	Chairman and Chief Executive Officer	January 31, 2019
Mark Zuckerberg	(Principal Executive Officer)	
/s/ David M. Wehner	Chief Financial Officer	January 31, 2019
David M. Wehner	(Principal Financial Officer)	
/s/ Susan J.S. Taylor	Chief Accounting Officer	January 31, 2019
Susan J.S. Taylor	(Principal Accounting Officer)	
/s/ Marc L. Andreessen	Director	January 31, 2019
Marc L. Andreessen		
/s/ Erskine B. Bowles	Director	January 31, 2019
Erskine B. Bowles		
/s/ Kenneth I. Chenault	Director	January 31, 2019
Kenneth I. Chenault		
/s/ Susan D. Desmond-Hellmann	Director	January 31, 2019
Susan D. Desmond-Hellmann		
/s/ Reed Hastings	Director	January 31, 2019
Reed Hastings		
/s/ Sheryl K. Sandberg	Director	January 31, 2019
Sheryl K. Sandberg		
/s/ Peter A. Thiel	Director	January 31, 2019
Peter A. Thiel		
/s/ Jeffrey D. Zients	Director	January 31, 2019
Jeffrey D. Zients		

FACEBOOK, INC.
2012 EQUITY INCENTIVE PLAN
NOTICE OF RESTRICTED STOCK UNIT AWARD
GRANT NUMBER:

Unless otherwise defined herein, the terms defined in the Facebook, Inc. (the “*Company*”) 2012 Equity Incentive Plan (the “*Plan*”) shall have the same meanings in this Notice of Restricted Stock Unit Award (the “*Notice*”).

Name:

Address:

You (“*Participant*”) have been granted an award of Restricted Stock Units (“*RSUs*”) under the Plan subject to the terms and conditions of the Plan, this Notice and the attached Award Agreement (Restricted Stock Units) (hereinafter “*RSU Agreement*”).

Number of RSUs:

Date of Grant:

Vesting Commencement Date:

Expiration Date: The date on which settlement of all RSUs granted hereunder occurs, with earlier expiration upon the Termination Date

Vesting Schedule: Subject to the limitations set forth in this Notice, the Plan and the RSU Agreement, the RSUs will vest in accordance with the following schedule:

By accepting (whether in writing, electronically or otherwise) the RSUs, and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs, Participant acknowledges and agrees to the following:

Participant agrees and acknowledges that in the event Participant’s service status with the Company (or a Subsidiary or affiliate, as the case may be) changes: (i) the Vesting Schedule may change prospectively, or (ii) a portion of the award may be subject to forfeiture. Any such changes or forfeiture will occur in accordance with Company policies including but not limited to policies relating to full- or part-time status, leaves of absence, work schedules, and vesting of awards.

Participant understands that Participant’s employment or consulting relationship or service with the Company (or a Subsidiary or affiliate, as the case may be) is for an unspecified duration, can be terminated at any time in accordance with the applicable law (which may include “at-will” employment) and that nothing in this Notice, the RSU Agreement or the Plan changes the nature of that relationship. Participant acknowledges that the vesting of the RSUs pursuant to this Notice is earned only by continuing service as an Employee, Director or Consultant of the Company (or a

Subsidiary or affiliate, as the case may be). By receiving the RSUs, Shares, or otherwise any benefit relating to the RSUs, Participant also acknowledges that this Notice is subject to the terms and conditions of both the RSU Agreement and the Plan, both of which are incorporated herein by reference, Participant has read both the RSU Agreement and the Plan, and Participant consents to the electronic delivery as set forth in the RSU Agreement.

Finally, please note that the RSU Agreements includes the Country-Specific Addendum, which provides additional notices, disclaimers, and/or terms and conditions that apply to employees in the countries listed. Participant understands and agrees that if Participant works, resides, moves to, or otherwise is or becomes subject to applicable laws or Company policies of any such jurisdictions at any time, such country-specific notices, disclaimers and/or terms and conditions will apply to Participant, unless otherwise determined by the Company in its sole discretion. In particular, any elections or special provisions for such country (including but not limited to provisions for certain tax treatment; social contributions; potential or mandatory forfeiture of grants in certain circumstances or countries, e.g., Israel or China; and applicable holding periods, sale restrictions, or processing of proceeds) may apply to Participant's RSUs or Shares as from the date of grant, even if Participant was not subject to such country laws or policies at the time of grant. However, because applicable laws and policies are subject to change, the Country-Specific Addendum is not exhaustive. As provided for in the RSU Agreement, the Company also retains the right to impose other requirements in relation to Participant's participation in the Plan to the extent necessary or advisable in order to comply with applicable laws or facilitate the administration of the Plan or this Agreement and to require Participant to sign any additional agreements or undertakings that may be necessary or advisable to accomplish the foregoing.

If Participant does not wish to accept the RSUs and the terms and conditions of the RSU Agreement and the Plan, Participant should notify peeps@fb.com anytime prior to 14 calendar days before the first vesting event. In this case, the RSU award will be cancelled and no benefits from the RSU award nor any compensation or benefits in lieu of the RSU award will be provided to Participant.

FACEBOOK, INC.
2012 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Facebook, Inc. (the “*Company*”) 2012 Equity Incentive Plan (the “*Plan*”) shall have the same defined meanings in this Award Agreement (Restricted Stock Units) (the “*Agreement*”).

Participant has been granted Restricted Stock Units (“*RSUs*”) subject to the terms, restrictions and conditions of the Plan, the Notice of Restricted Stock Unit Award (the “*Notice*”) and this Agreement (including any and all exhibits and addenda thereto).

1. **Settlement.** Settlement of RSUs shall be made within 30 days following the applicable date of vesting under the vesting schedule set forth in the Notice. Settlement of RSUs shall be in Shares.
 2. **No Stockholder Rights.** Unless and until such time as Shares are issued in settlement of vested RSUs, Participant shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.
 3. **Dividend Equivalents.** Dividends, if any (whether in cash or Shares), shall not be credited to Participant.
 4. **Non-Transferability of RSUs.** RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent or distribution or unless otherwise permitted by the Committee on a case-by-case basis.
 5. **Termination.** If Participant’s service Terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights of Participant to such RSUs shall immediately terminate. In case of any dispute as to whether Termination has occurred, the Company shall have sole discretion to determine whether such Termination has occurred and the effective date of such Termination for purposes of the Plan. For the avoidance of doubt, it is noted that, except as may be agreed to in the sole discretion of the Company, if Participant is Terminated by his/her employer for any reason or if Participant’s Termination is due to his/her voluntary resignation, all unvested RSUs shall be forfeited as of the date on which Participant is no longer actively providing services, and no vesting shall continue during any notice period that may be mandated in relation to his Termination, whether specified under contract or applicable law, including any “garden leave” or similar period.
 6. **Withholding Taxes.** Prior to the settlement of Participant’s RSUs and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs, Participant shall pay or make adequate arrangements satisfactory to the Company (and any Subsidiary or affiliate) to satisfy all withholding obligations of the Company (and any Subsidiary or affiliate) and any other amounts in relation to the RSUs, including any applicable taxes, social contributions, required deductions, or other payments. In this regard, Participant authorizes the Company (and any Subsidiary or affiliate) to withhold all such amounts legally payable by Participant. In this regard, Participant authorizes the Company (and any Subsidiary or affiliate), at the direction and discretion of the Committee, to satisfy all obligations by one or a combination of the following: (i) payment of a cash amount by Participant, (ii) by withholding from Participant’s wages or other cash compensation paid to Participant by the Company (and any Subsidiary or affiliate), (iii) withholding Shares based on the Fair Market Value of the Shares that otherwise would be issued to Participant when Participant’s RSUs are settled, provided that the Company does not withhold more than the amount of Shares necessary to satisfy the maximum statutory withholding amount, (iv) by withholding from proceeds of the sale of Shares acquired upon settlement of the RSUs through a voluntary or mandatory sale arranged by the Company (on Participant’s behalf pursuant to this authorization without further action by Participant), or (v)
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by any other arrangement approved by the Committee, all under such rules as may be established by the Committee and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable. The Company may refuse to deliver the Shares or the proceeds from the sale of Shares if Participant fails to comply with Participant's obligations in connection with the tax withholding or other payments as described in this section.

7. Acknowledgment. As a condition to, and in consideration of, the grant, vesting, and settlement of the RSUs, the Company and Participant agree that the RSUs are granted under and governed by the Notice, this Agreement (including the Country-Specific Addendum hereto) and the provisions of the Plan. By receiving the RSUs, Shares, or otherwise any benefit relating to the RSUs, Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus, (ii) represents that Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan and the Notice.

8. Entire Agreement; Enforcement of Rights. This Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the issuance of the Shares hereunder are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

9. Data Protection. In order to enable the Company to properly administer the Plan and the RSUs received by the Participant pursuant to the Plan, Participant hereby gives explicit consent to the Company, any Subsidiary, Parent or Affiliate of the Company, and/or any delegates to collect and process (electronically or otherwise) personal data, including sensitive and financial data, about himself or herself necessary to administer the Plan and RSUs received by Participant pursuant to the Plan. Such data may include, but is not limited to, Participant's name, work authorization, government or tax identification number, date of birth, beneficiaries' contact information, RSU grant history, and compensation information. Participant also hereby gives explicit consent to the Company and any Subsidiary, Parent or Affiliate of the Company to transfer (electronically or otherwise) any such data outside the country in which Participant is living or employed (including to the United States), as well as to third-party providers (in Participant's home country or the United States or other countries) of legal, tax, benefits, administration or other services to the Company (and any Subsidiary, Parent or Affiliate of the Company) or employees of any such entity, including but not limited to the designated broker for the Plan, Charles Schwab. The legal person for whom such personal data is intended to be used is the Company and/or any Subsidiary, Parent or Affiliate of the Company. Participant further understands that the Company and/or its Subsidiary, Parent or Affiliate may report information regarding the Participant and/or the RSU to tax authorities or other governmental agencies as may be required to comply with applicable laws.

10. Compliance with Laws and Regulations. The issuance of Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable national or local laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer. Furthermore, the applicable laws of the jurisdiction in which Participant is living or working at the time of grant, vesting and/or settlement of the RSUs and/or disposition of the Shares received thereunder (including any rules or regulations governing securities, exchange control, tax, labor or other matters) and any other applicable laws may restrict or prevent settlement of the RSUs and/or disposition of the Shares received thereunder or may subject Participant to additional procedural or regulatory requirements. The Company will be under no obligation to register or qualify the Plan, the RSUs or the Shares with, or to effect compliance with the registration, qualification or other requirements of, any foreign governmental authority and the Company will have no liability for any inability or failure to do so.

11. Country-Specific Addendum and Additional Requirements. The RSUs, any Shares to be issued upon settlement of the RSUs and participation in the Plan shall be subject to any different or additional terms and conditions set forth in the Country-Specific Addendum hereto. Moreover, the Company reserves the right to impose other

requirements on the RSUs, the Shares to be issued upon settlement of the RSUs and participation in the Plan to the extent necessary or advisable for legal or administrative reasons and to require Participant to sign any additional agreements or undertakings that may be necessary or advisable to accomplish the foregoing. Such requirements will apply as from the date of grant, including in circumstances where Participant moves to another country after the date of grant, unless otherwise determined by the Company in its sole discretion.

12. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this Agreement, (b) the balance of this Agreement shall be interpreted as if such provision were so excluded and (c) the balance of this Agreement shall be enforceable in accordance with its terms.

13. Governing Law; Choice of Venue. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflict of laws. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts of the United States for the Northern District of California and no other courts.

14. No Rights as Employee, Director or Consultant. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent, Subsidiary or Affiliate of the Company, to terminate Participant's service in accordance with applicable laws, which may provide for the termination of Participant's service for any reason, with or without cause.

15. Nature of Grant. As a condition to, and in consideration of, the grant, vesting, and settlement of RSUs, and in receiving the award of RSUs, Shares, or any other benefit relating to the RSUs, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be unilaterally modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the RSUs is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs or other Awards, or benefits in lieu of RSUs, even if RSUs have been granted in the past;

(c) all decisions with respect to future grants of RSUs, if any, will be at the sole discretion of the Company;

(d) Participant is voluntarily participating in the Plan;

(e) the RSUs and the Shares subject to the RSUs, and the income from and value of same, are an extraordinary item that do not constitute compensation of any kind for services of any kind rendered to the employer, the Company or any Subsidiary or Parent of the Company and are outside the scope of Participant's employment or service contract, if any;

(f) the RSU and the shares of Common Stock subject to the RSU, and the income from and value of same, are not intended to replace any pension rights or compensation;

(g) the RSUs and the Shares subject to the RSUs, and the income from and value of same, are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the employer, the Company or any Subsidiary, Parent or Affiliate of the Company;

(h) unless otherwise agreed with the Company, the RSU and the Shares subject to the RSUs, and the income from and value of same, are not granted as consideration for, or in connection with, the service Participant may provide as a director of a Parent, Subsidiary or Affiliate of the Company;

(i) the RSUs and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or with any Parent, Subsidiary or Affiliate of the Company;

(j) the future value of the underlying Shares to be issued when the RSUs are settled is unknown, indeterminable and cannot be predicted with certainty and neither the Company nor any Parent, Subsidiary or Affiliate of the Company will be liable for any decrease in the value of such RSUs or Shares or for any foreign exchange rate fluctuations between Participant's local currency and the United States Dollar that may affect the value of any benefit Participant may receive in relation to the RSUs or the Shares to be issued pursuant to the settlement of the RSUs; and

(k) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from Termination or from any diminution in value of the RSUs or Shares acquired upon settlement of the RSUs for any reason.

16. Language. If the Notice, the Plan, this Agreement or any other documents relating to the RSUs has been provided in a language other than English, the English language documents will prevail in the case of any ambiguities or divergences as a result of translation.

17. Acknowledgment and Acceptance. By Participant's acceptance (whether in writing, electronically or otherwise) of the Notice or receipt of the RSUs, Shares or any other benefit relating to the RSUs, and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs:

(a) Participant and the Company agree that the RSUs are granted under and governed by the terms and conditions of the Plan, the Notice and this Agreement (including any applicable terms and conditions provided in the Country-Specific Addendum);

(b) Participant acknowledges receipt of a copy of the Plan and the Plan prospectus and represents that Participant has carefully read and is familiar with the provisions of the Plan, the Plan prospectus, the Notice and this Agreement and has had an opportunity to obtain the advice of counsel prior to executing this Agreement;

(c) Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice and this Agreement;

(d) Participant consents to the electronic delivery of the Notice, this Agreement, the Plan, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy

statements) or other communications or information related to the RSUs; electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion; and

- (e) Participant agrees to notify the Company upon any change in Participant's residence address.

Country-Specific Addendum

This Country-Specific Addendum (the “**Addendum**”) includes additional (or, if so indicated, different) terms and conditions that govern the RSUs if Participant is subject to the laws of one or more of the jurisdictions listed herein. If Participant is a citizen or resident of a jurisdiction (or is considered as such for local law purposes) other than the one in which he or she is currently residing and/or working or if Participant transfers to another jurisdiction after being granted the RSUs, the Company will, in its discretion, determine the extent to which the terms and conditions contained herein will be applicable to Participant.

This Addendum also includes notifications relating to issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the jurisdictions as of January 2018. Such laws are often complex and change frequently. As a result, Participant should not rely on the information in this Addendum as the only source of information relating to the consequences of his or her participation in the Plan because the information may be out of date at the time the RSUs vest or are settled or at the time Participant sells Shares acquired under the Plan. In addition, the notifications are general in nature and may not apply to Participant’s particular situation, and the Company is not in a position to assure Participant of any particular result. Accordingly, Participant should seek appropriate professional advice as to how the laws in the relevant jurisdictions may apply to Participant’s situation. If Participant is a citizen or resident of a jurisdiction (or is considered as such for local law purposes) other than the one in which Participant is currently working and/or residing or if Participant transfers to another jurisdiction after being granted the RSUs, the information contained herein may not be applicable to Participant in the same manner.

This Addendum forms part of the Agreement and should be read in conjunction with the Agreement and the Plan. Unless otherwise defined herein, the terms defined in the Plan or the Agreement, as applicable, shall have the same defined meanings in this Addendum.

**All Non-U.S.
Jurisdictions**

Taxes

The following supplements Section 6 of the Agreement:

Participant acknowledges that, regardless of any action taken by the Company or, if different, the Subsidiary or Affiliate employing Participant (the “**Employer**”), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to participation in the Plan and legally applicable to Participant (“**Tax-Related Items**”) is and remains Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges that the Company and/or the Employer make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including, but not limited to, the grant, vesting or settlement of the RSUs, the subsequent sale of Shares acquired upon settlement and the receipt of any dividends, and do not commit to and are under no obligation to structure the terms of the grant or any aspect of the RSUs to reduce or eliminate my liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Without derogating from the provisions of Section 6(iii) above, the Company may withhold or account for Tax-Related Items by considering maximum applicable rates. If the Company determines the withholding amount using maximum applicable rates, any over-withheld amount will be refunded in cash in accordance with applicable laws and Participant will have no entitlement to the equivalent in Shares. Further, if the obligation for the Tax-Related Items is satisfied by withholding Shares as described in Section 6(iii) above, for tax purposes, Participant will be deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

Insider Trading Restrictions/Market Abuse Laws

Participant acknowledges that, depending on Participant's or Participant's broker's country of residence or where the Shares are listed, Participant may be subject to insider trading restrictions and/or market abuse laws which may affect his or her ability to accept, acquire, sell or otherwise dispose of the Shares, rights to Shares (e.g., RSUs) or rights linked to the value of Shares (e.g., phantom awards, futures) during such times Participant is considered to have “inside information” regarding the Company as defined in the laws or regulations in his or her country. Local insider trading laws and regulations may prohibit the cancellation or amendment of orders Participant placed before he or she possessed inside information. Furthermore, Participant could be prohibited from (i) disclosing the inside information to any third party (other than on a “need to know” basis) and (ii) “tipping” third parties or causing them otherwise to buy or sell securities. Keep in mind third parties includes fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under Facebook, Inc. Insider Trading Policy as may be amended from time to time. Participant acknowledges that it is his or her responsibility to comply with any restrictions and that Participant should consult his or her personal legal advisor on this matter.

Foreign Asset/Account Reporting, Exchange Control and Other Requirements

Without limitation to any requirements noted below for any specific country, Participant may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the vesting and settlement of the RSUs, the acquisition, holding and/or transfer of Shares or cash resulting from participation in the Plan and/or the opening and maintaining of a brokerage or bank account in connection with the Plan. Participant may be required to report such assets, accounts, account balances and values, and/or related transactions to the applicable authorities in his or her country. Participant may also be required to repatriate sale proceeds or other funds received as a result of his or her participation in the Plan to his or her country through a designated bank or broker and/or within a certain time after receipt. Participant acknowledges that it is his or her responsibility to comply with any applicable foreign asset/account, exchange control and tax reporting and other requirements and that Participant should consult his or her personal tax and legal advisors on these matters.

Securities Law Notice

Unless otherwise noted herein, neither the Company nor the Shares are registered with any local stock exchange or under the control of any local securities regulator outside the U.S. This Agreement, the Plan, and any other communications or materials that Participant may receive regarding participation in the Plan do not constitute advertising or an offering of securities outside the U.S. The issuance of securities described in any Plan-related documents is not intended for offering or public circulation in Participant's jurisdiction.

European Union
("EU")/ European
Economic Area
("EEA")

Data Privacy

The following replaces Section 9 of the Agreement:

In order to offer participation in the Plan, it is necessary for the Company to collect and process certain information about Participant. Further detail about this is set out below.

Participant's participation in the Plan is voluntary. Participant may withdraw from the Plan at any time. Withdrawal from the Plan will not affect Participant's salary as an employee or his or her employment; Participant would merely forfeit the opportunities and benefits associated with the Plan.

If Participant withdraws from the Plan, the Company will cease to use Participant's information for the purpose of the Plan (subject to the data retention requirements set out below).

Data Collection and Usage. *The Company collects personal information about Participant for purposes of administration of the Plan, including: name, home address, telephone number and email address, date of birth, social insurance number, passport or other identification number, salary, citizenship, nationality, job title, any equity, shares of stock or directorships held in the Company and its Affiliates, details of all RSUs or any other entitlement to equity granted, canceled, vested, unvested or outstanding in Participant's favor, which the Company receives from Participant or the Employer ("Participant Data").*

The Company will process and use Participant Data for the purposes of allocating stock and implementing, administering and managing the Plan. The Company's legal basis for the processing of Participant's Data is based on contractual necessity for the performance of the Plan.

Stock Plan Administration Service Providers. *The Company currently uses Charles Schwab & Co., Inc. and its affiliated companies ("Charles Schwab") as its service provider for the Plan. The Company shares your Participant Data with Charles Schwab for the purposes of implementing, administering and managing the Plan. Charles Schwab is based in the United States. In the future, the Company may select a different service provider and share Participant Data with another company that serves in a similar manner. The Company's service provider(s) will open an account for Participant to receive and trade stock. Participant may be asked to agree to separate terms and data processing practices with the service provider(s), which is a condition to his or her participation in the Plan.*

International Data Transfers. *The Company and its service provider(s), including Charles Schwab, are based in the United States, which means that it will be necessary for Participant Data to be transferred to, and processed in, the US. Participant should note that his or her country may have enacted data privacy laws that are different from the United States and which may offer different levels of protection. The legal basis for the transfer of Participant Data is based on contractual necessity for the performance of the Plan.*

Data Retention. *The Company will use Participant Data only as long as is necessary to implement, administer and manage his or her participation in the Plan or as may be required by the Company in order to comply with legal or regulatory obligations, including under tax and securities laws (which will generally be no more than 7 years after the Participant ceases participating in the Plan).*

Data Subject Rights. *Participant has a number of rights under data privacy laws in his or her country. Depending on where Participant is based, his or her rights may include: (a) the right of access to the Participant's personal data held by the Company, (b) the right of rectification of incorrect data, (c) the right to erasure of data, (d) the right to restriction of processing, and (e) the right to data portability.*

If you have any questions about any aspect of the Plan or these terms, please contact peeps@fb.com.

Argentina**Exchange Control Notice**

Argentine currency exchange restrictions and reporting requirements may apply to the RSUs and any Shares acquired under the Plan; the relevant laws and regulations are subject to frequent change. Participant should consult his or her personal legal advisor to ensure compliance with the applicable requirements.

Foreign Asset/Account Reporting Notice

If Participant holds Shares as of December 31 of any year, he or she is required to report the holding of the Shares on his or her personal tax return for the relevant year.

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Australia

Securities Law Notice

This disclosure has been prepared in connection with offers to Participants in Australia. It has been prepared to ensure that this grant of RSUs (the “*Offer*”) complies with Australian Securities and Investments Commission (“*ASIC*”) Class Order 14/1000 and the relevant provisions of the Australian Corporations Act 2001.

Additional Documents

In addition to the information set out in the Agreement, Participant is also being provided with copies of the Plan and the U.S. prospectus for the Plan (collectively, the “*Additional Documents*”). The Additional Documents provide further information to help Participant make an informed investment decision about participating in the Plan. Neither the Plan nor the U.S. prospectus for the Plan is a prospectus for the purposes of the Australian Corporations Act 2001. Participant should not rely upon any oral statements made in relation to this Offer. Participant should rely only upon the statements contained in the Agreement and the Additional Documents when considering participation in the Plan.

Any information given to Participant in connection with the Offer is general information only. It does not take into account the objectives, financial situation and needs of any particular person. No financial product advice is provided in the documentation relating to the Plan and nothing in the documentation should be taken to constitute a recommendation or statement of opinion that is intended to influence Participant in making a decision to participate in the Plan. Participant should consider obtaining his or her own financial product advice from an independent person who is licensed by the ASIC to give such advice.

Common Stock

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. A holder of a Share is entitled to one vote for every Share held. The Shares are traded on the Nasdaq in the United States of America under the symbol “FB”. The Shares are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Risks of Participation in the Plan

Investment in Shares involves a degree of risk. Participants should have regard to risk factors relevant to investment in securities generally and, in particular, to the holding of Shares. For example, the price at which Shares are quoted on the Nasdaq may increase or decrease due to a number of factors. There is no guarantee that the price of the Shares will increase. Factors which may affect the price of Shares include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

In addition, the Australian dollar value of any Shares acquired upon settlement will be affected by the U.S. dollar/Australian dollar exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Ascertaining the Market Price of Shares

Participants may ascertain the current market price of the Shares as traded on the Nasdaq at <http://www.nasdaq.com> under the symbol “FB.” The Australian dollar equivalent of that price can be obtained at: <http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This will not be a prediction of what the market price per Share will be when the RSUs vest or when the Shares are issued or of the applicable exchange rate on the actual vesting date or date the Shares are issued.

Tax Information

The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the “*Act*”) applies (subject to the conditions in that Act).

Belgium**Foreign Asset / Account Reporting Notice**

If Participant is a resident of Belgium, he or she will be required to report any security (e.g., Shares acquired under the Plan) or bank account (including brokerage accounts) established outside of Belgium on his or her annual tax return. In a separate report, he or she will be required to provide the National Bank of Belgium with details regarding such foreign accounts (including the account number, bank name and country in which any such account was opened).

Brazil**Compliance with Law**

In accepting the grant of this Award, Participant agrees to comply with applicable Brazilian laws and pay any and all Tax-Related Items.

Nature of Grant

This provision supplements Section 15 of the Agreement:

By accepting the RSUs, Participant agrees that (i) he or she is making an investment decision, (ii) the Shares will be issued to him or her only if the vesting conditions are met and any necessary services are rendered by Participant over the vesting period, and (iii) the value of the underlying Shares is not fixed and may increase or decrease over the vesting period without compensation to Participant.

Exchange Control Notice

If Participant is a resident of Brazil, he or she will be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights (including any capital gain, dividend or profit attributable to such assets) is equal to or greater than US\$100,000.

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Canada

Settlement

This provision supplements Section 1 of the Agreement:

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

Termination

This provision replaces Section 5 of the Agreement:

If Participant's service Terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights of Participant to such RSUs shall immediately terminate. For the avoidance of doubt, it is noted that, except as may be agreed to in the sole discretion of the Company, if Participant is Terminated by his/her employer for any reason or if Participant's Termination is due to his/her voluntary resignation, all unvested RSUs shall be forfeited as of the date that is the earlier of: (i) the date Participant's employment is terminated, and (ii) the date Participant is no longer actively providing services to the Company or any of its Subsidiaries (regardless of the reason for such Termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any), and no vesting shall continue during any notice period in relation to his/her Termination, whether specified under contract or statutory, regulatory or common law, including any "garden leave" or similar period. In case of any dispute as to whether Termination has occurred, the Company shall have sole discretion to determine whether such Termination has occurred and the effective date of such Termination for purposes of the Plan.

Securities Law Notice

Participant is permitted to sell the Shares acquired under the Plan through the designated broker appointed under the Plan, if any, provided the resale of Shares acquired under the Plan takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed (e.g., the Nasdaq).

Foreign Asset / Account Reporting Notice

If Participant is a Canadian resident, Participant is required to report his or her foreign specified property (including Shares and rights to receive Shares such as RSUs) on Form T1135 (Foreign Income Verification Statement) if the total value of such foreign specified property exceeds C\$100,000 at any time during the year. RSUs must be reported (generally at nil cost) if the C\$100,000 cost threshold is exceeded because of other foreign property he or she holds. When Shares are acquired, their cost generally is the adjusted cost base ("ACB") of the Shares which would ordinarily equal the fair market value of the Shares at the time of acquisition, but if other Shares are also owned, this ACB may have to be averaged with the ACB of the other Shares.

The following provisions apply to Participants who are residents of Quebec:

Data Privacy

The following provision supplements Section 9 of the Agreement:

Participant hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Participant further authorizes the Company and any Parent, Subsidiary or Affiliate and the administrator of the Plan to disclose and discuss the Plan with their advisors. Participant further authorizes the Company and any Parent, Subsidiary or Affiliate to record such information and to keep such information in Participant's file.

Language Consent

The parties acknowledge that it is their express wish that this Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement Relatif à la Langue Utilisée

Les parties reconnaissent avoir expressément souhaité que la convention («Agreement»), ainsi que tous les documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à la présente convention, soient rédigés en langue anglaise.

Colombia**Nature of Grant**

This provision supplements Section 15 of the Agreement:

Participant acknowledges that pursuant to Article 128 of the Colombian Labor Code, the Plan and related benefits do not constitute a component of “salary” for any legal purpose.

Exchange Control Notice

Prior approval from a government authority is not required to purchase and hold foreign securities or to receive an equity award. However, if the value of foreign investments, including the value of any equity awards, equals or exceeds US \$500,000 (as of December 31 of the applicable year), such investments must be registered with the Central Bank (*Banco de la República*). When the foreign investment is liquidated, the proceeds do not have to be repatriated to Colombia. However, if the investment was registered with the Central Bank, Participant must cancel the registration no later than March 31 of the year following the year of the liquidation or Participant will be subject to fines.

Foreign Asset / Account Reporting Notice

Participant must file an annual informative return with the Colombian Tax Office detailing any assets held abroad. If the individual value of any of these assets exceeds a certain threshold, Participant must describe each asset and indicate the jurisdiction in which it is located, its nature and its value.

Denmark**Employer Statement**

Participant acknowledges that he or she has received the attached Employer Statement, translated into Danish, which sets forth additional terms of the RSUs as required by the Danish Stock Option Act, to the extent that the Danish Stock Option Act applies to the RSUs.

Foreign Asset / Account Reporting Notice

Danish residents must submit certain forms to the Danish tax authorities:

Erklæring V must be completed in connection with the deposit of any securities (including Shares acquired under the Plan) into a bank or brokerage account outside of Denmark and Erklæring K must be completed to report the existence of any account outside of Denmark in which Shares or cash will be held. These forms are available at the website of the Danish Tax Authorities.

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SPECIAL NOTICE FOR EMPLOYEES IN DENMARK
EMPLOYER STATEMENT

Pursuant to Section 3(1) of the Act on Stock Options in employment relations (the “*Stock Option Act*”), you are entitled to receive the following information regarding the restricted stock units granted to you by Facebook, Inc. (the “*Company*”) under the Facebook, Inc. 2012 Equity Incentive Plan (the “*Plan*”) in a written statement.

This statement contains information applicable to your participation in the Plan, as required under the Stock Option Act, while the other terms and conditions of your restricted stock units (“*RSUs*”) are described in detail in the Plan and the Restricted Stock Unit Award Agreement (the “*Agreement*”), both of which have been made available to you. Capitalized terms used but not defined herein shall have the same meanings given to them in the Plan or the Agreement, as applicable.

Section 1 of the Stock Option Act provides that the Stock Option Act only applies to employees. Employees are defined in section 2 of the Stock Option Act as persons who receive remuneration for their personal services in an employment relationship. Persons, including managers, who are not regarded as employees under the Stock Option Act, will not be subject to the Stock Option Act. If you are not an employee within the meaning of the Stock Option Act, the Company therefore has no obligation to issue an employer information statement to you and you will not be able to rely on this statement for legal purposes, since only the terms and conditions set out in the Plan apply.

1. Date of grant

The date of grant of your RSUs is the date that the Board or Committee that approved a grant for you determined it would be effective, which is set forth in the Notice.

2. Terms or conditions for RSU grant

The grant of RSUs under the Plan is made at the sole discretion of the Company. Employees, Non-Employee Directors and Consultants of the Company and its Affiliates, are eligible to receive grants under the Plan. The Board has broad discretion to determine who will receive RSUs and to set the terms and conditions of the RSUs. The Company may decide, in its sole discretion, not to make any grants of RSUs to you in the future. Under the terms of the Plan and the Agreement, you have no entitlement or claim to receive future grants of RSUs.

3. Vesting date or period

The RSUs will vest over a period of time (as set forth in the Agreement), subject to your continued employment through the applicable vesting date and other conditions set forth in the Plan and Agreement, and subject to Section 5 of this statement.

4. Exercise Price

No exercise price is payable upon the conversion of your RSUs into Shares in accordance with the vesting and settlement schedule described in the Agreement.

5. Your rights upon termination of employment

The treatment of your RSUs upon termination of employment will be determined under Sections 4 and 5 of the Stock Option Act unless the terms contained in the Plan and the Agreement are more favorable to you than Sections 4 and 5 of the Stock Option Act. If the terms contained in the Plan and the Agreement are more favorable to you, then such terms will govern the treatment of your RSUs upon termination of employment.

6. Financial aspects of participating in the Plan

The grant of RSUs has no immediate financial consequences for you. The value of the RSUs is not taken into account when calculating holiday allowances, pension contributions or other statutory consideration calculated on the basis of salary.

Shares of stock are financial instruments and investing in stock will always have financial risk. The future value of Company shares is unknown and cannot be predicted with certainty.

Facebook, Inc.

1601 Willow Road
Menlo Park, CA 94025
U.S.A.

SÆRLIG MEDDELELSE TIL MEDARBEJDERE I DANMARK
ARBEJDSGIVERERKLÆRING

I henhold til § 3, stk. 1, i lov om brug af køberet eller tegningsret mv. i ansættelsesforhold ("Aktieoptionsloven") er du berettiget til i en skriftlig erklæring at modtage følgende oplysninger om de betingede aktier (på engelsk: Restricted Stock Units), som du tildeles af Facebook, Inc. ("Selskabet") i henhold til Facebook, Inc.'s 2012 Equity Incentive Plan ("Planen").

Denne erklæring indeholder, i henhold til Aktieoptionsloven, de oplysninger, der er gældende for din deltagelse i Planen, mens de øvrige kriterier og betingelser for dine betingede aktier ("Betingede Aktier") er beskrevet nærmere i Planen og i Restricted Stock Unit Award Agreement ("Aftalen"), som begge er stillet til rådighed for dig. Begreber, der står med stort begyndelsesbogstav i denne arbejdsgivererklæring, men som ikke er defineret heri, har den betydning, der er defineret i Planen, hhv. Aftalen.

I henhold til Aktieoptionslovens § 1 finder loven kun anvendelse for lønmodtagere. Lønmodtagere er defineret i Aktieoptionslovens § 2 som personer, der modtager vederlag for personligt arbejde i tjenesteforhold. Personer, herunder direktører, som ikke anses for at være lønmodtagere i Aktieoptionslovens forstand, er ikke omfattet af Aktieoptionsloven. Hvis du ikke er lønmodtager i Aktieoptionslovens forstand, er Selskabet derfor ikke forpligtet til at udstede en arbejdsgivererklæring til dig, og du vil ikke i juridisk henseende kunne henholde dig til denne arbejdsgivererklæring, da alene Planens vilkår er gældende.

1. Tildelingstidspunkt

Tidspunktet for tildelingen af dine Betingede Aktier er den dag, hvor den Bestyrelse eller Komité, der godkendte din tildeling, besluttede, at den skulle træde i kraft. Tidspunktet fremgår af Meddelelsen.

2. Vilkår og betingelser for tildelingen af Betingede Aktier

Betingede Aktier, der er omfattet af Planen, tildeles udelukkende efter Selskabets skøn. Tildeling kan i henhold til Planen ske til Medarbejdere, Bestyrelsesmedlemmer og Konsulenter i Selskabet og dets Tilknyttede Selskaber. Bestyrelsen har vide beføjelser til at bestemme, hvem der skal modtage Betingede Aktier, og til at fastsætte betingelserne for de Betingede Aktier. Selskabet kan frit vælge fremover ikke at tildele dig Betingede Aktier. I henhold til bestemmelserne i Planen og Aftalen har du hverken ret til eller krav på fremover at få tildelt Betingede Aktier.

3. Modningstidspunkt eller -periode

De Betingede Aktier modnes over en periode (som anført i Aftalen), forudsat at du på det relevante modningstidspunkt opfylder betingelsen om fortsat ansættelse og de øvrige betingelser i Planen og i Aftalen, og med forbehold for pkt. 5 i denne erklæring.

4. Udnyttelseskurs

Ingen udnyttelseskurs skal betales i forbindelse med konvertering af dine Betingede Aktier til Aktier i overensstemmelse med den i Aftalen beskrevne modnings- og udnyttelsesplan.

5. Din retsstilling i forbindelse med fratræden

Dine Betingede Aktier vil i tilfælde af din fratræden blive behandlet i overensstemmelse med Aktieoptionslovens §§ 4 og 5, medmindre bestemmelserne i Planen og Aftalen er mere fordelagtige for dig end Aktieoptionslovens §§ 4 og 5. Hvis bestemmelserne i Planen og Aftalen er mere fordelagtige for dig, vil det være disse bestemmelser, der er gældende for, hvordan dine Betingede Aktier behandles i forbindelse med din fratræden.

6. Økonomiske aspekter ved deltagelse i Planen

Tildelingen af Betingede Aktier har ingen umiddelbare økonomiske konsekvenser for dig. Værdien af de Betingede Aktier indgår ikke i beregningen af feriepenge, pensionsbidrag eller øvrige lovbestemte, vederlagsafhængige ydelser.

Aktier er finansielle instrumenter, og investering i aktier vil altid være forbundet med en økonomisk risiko. Den fremtidige værdi af Selskabets aktier kendes ikke og kan ikke forudsiges med sikkerhed.

Facebook, Inc.
1601 Willow Road
Menlo Park, CA 94025
U.S.A.

France

French Sub-Plan

The RSUs are intended to qualify for specific treatment under French tax and social security laws and are subject to the provisions below and the Sub-Plan to the Facebook, Inc. 2012 Equity Incentive Plan, Qualified Restricted Stock Units (FRANCE) (the “**French Sub-Plan**”), which has been provided to Participant and is incorporated herein. Capitalized terms below shall have the same definitions assigned to them under the French Sub-Plan and the Agreement.

Settlement

This provision supplements Section 1 of the Agreement:

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

Termination

This provision supplements Section 5 of the Agreement:

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, death of a Participant’s will not cause such Participant’s unvested RSUs to be immediately forfeited to the Company. In the case of Participant’s death, if the Participant’s heir or heirs request the delivery of the Shares subject to the RSUs within a period of six (6) months following the Participant’s death, then the RSUs will be settled in Shares as soon as practicable following the request. If no such request is made within six (6) months following the Participant’s death, the RSUs will be forfeited.

Non-Transferability of RSUs

This provision replaces Section 4 of the Agreement:

RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent and, in any event, always in accordance with applicable laws.

Minimum Vesting Period

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, save in the case of death a Participant, RSUs will not vest nor be settled before the first (1st) annual anniversary of the Grant Date (as defined under the French Sub-Plan) or such other period as is required to comply with the minimum mandatory vesting period applicable to Shares underlying French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, as amended, or by the French Tax Code or French Social Security Code, as amended.

Mandatory Holding Period

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, any Shares issued to Participant upon settlement of the RSUs must be held (and cannot be sold or transferred) until the expiration of a period which, together with the vesting period, can be no less than two years from the Grant Date, or such other period as is required to comply with the minimum mandatory holding period applicable to Shares underlying French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, as amended, or by the French Tax Code or French Social Security Code, as amended; provided that if Participant dies or becomes Disabled, this mandatory holding period will not apply. In order to enforce this provision, the Company may, in its discretion, issue appropriate “stop transfer” instructions to its transfer agent or hold the Shares until the expiration of the holding period set forth above (such Shares may be held by the Company, a transfer agent designated by the Company or with a broker designated by the Company).

Closed Periods

Pursuant to article L 225-197-1 of the French *Code de commerce*, shares of a listed company cannot be sold (i) during the period of ten (10) stock-exchange trading days that precede or three (3) stock-exchange trading days that follow the date on which the consolidated accounts, or failing that, the annual accounts are made public; and (ii) during the period between the date on which the company’s management has knowledge of information which, if it were made public, could have a significant impact on the price of the company’s securities, and the date ten (10) stock-exchange trading days after that on which the said information is made public. These rules will apply to Participant unless Participant is otherwise restricted from selling Shares received upon settlement of RSUs under similar rules applicable under U.S. law, in which case the U.S. rules shall prevail. In any event, Participant is at all times required to comply with the Facebook, Inc. Insider Trading Policy as may be amended from time to time, which may be accessed at https://our.intern.facebook.com/intern/wiki/Legal/Insider_Trading_Policy/ and in particular Section II re No Trading on Material Non-Public Information, Black-Out Periods, and other important matters. Persons who violate these general rules and the Insider Trading Policy may be subject to legal and financial penalties. If Participant trades during any applicable Black-Out Period as described in the Insider Trading Policy, or if the French tax authorities deem that

Participant has not complied with the French closed period restrictions and/or similar rules under applicable U.S. law, the RSUs and Shares received under the RSUs may lose Qualified status, and Participant will not receive preferential tax treatment.

Acknowledgment

This provision supplements Sections 15 and 17 of the Agreement:

The Company and Participant agree that the RSUs are granted under and governed by the Notice, this Agreement (including the France section of the Country-Specific Addendum), the provisions of the Plan and the French Sub-Plan. Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus and the French Sub-Plan, (ii) represents that Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan, the French Sub-Plan, the Notice, and the Agreement.

Language Consent

By accepting the Restricted Stock Units, Participant confirms he or she has read and understood the Plan and the French Sub-Plan and the Agreement, including all the terms and conditions set forth therein, which were provided in the English language. Participant accepts the terms of those documents accordingly.

Consentement Relatif à la Langue Utilisée

En acceptant cette attribution gratuite d'actions, le Participant confirme avoir lu et compris le Plan, le Sous-Plan Français et le présent Contrat, incluant tous leurs termes et conditions, qui ont été transmis en langue anglaise. Le Participant accepte les termes de ces documents en connaissance de cause.

Foreign Asset/Account Reporting Notice

If Participant is a French resident and holds Shares outside of France or maintain a foreign bank account, Participant is required to declare all foreign securities, bank, and brokerage accounts, whether open, current, or closed during the tax year, in his or her annual income tax return. Failure to comply could trigger significant penalties.

Germany**Exchange Control Notice**

Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank (Bundesbank). The report must be filed electronically using the “General Statistics Reporting Portal” (*Allgemeines Meldeportal Statistik*) available via Bundesbank’s website (www.bundesbank.de).

Hong Kong**Settlement**

This provision supplements Section 1 of the Agreement:

Any Shares received at settlement of RSUs are a personal investment. If, for any reason, the RSUs vest and become non-forfeitable and Shares are issued to Participant within six months of the date of grant, Participant agrees that he or she will not offer the Shares to the public in Hong Kong or otherwise dispose of the Shares prior to the six-month anniversary of the date of grant.

Securities Law Notice

The RSUs and any Shares issued upon settlement of the RSUs do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or a Parent, Subsidiary or Affiliate of the Company. The Plan, the Agreement, including this Addendum, and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable companies and securities legislation in Hong Kong and have not been registered with or authorized by any regulatory authority, including the Securities and Future Commission, in Hong Kong. This Agreement and the incidental communication materials are intended only for the personal use of each eligible Participant and not for distribution to any other persons. If Participant has any questions about any of the contents of this Agreement or the Plan or other incidental communication materials, Participant should obtain independent professional advice.

India

Exchange Control Notice

Participant must comply with any and all applicable exchange control laws in India. Without limitation to the foregoing, he or she must repatriate any funds recognized in connection with the RSUs to India within such time as prescribed under applicable Indian exchange control laws as amended from time to time. Participant will receive a foreign inward remittance certificate (“ **FIRC** ”) from the bank where he or she deposits the foreign currency. Participant should retain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Company or the Employer requests proof of repatriation.

Foreign Asset/Account Reporting Notice

Participant is required to declare his or her foreign bank accounts and any foreign financial assets (including Shares held outside India) in his or her annual tax return.

Indonesia

Language Consent and Notification

By accepting the RSUs, Participant (i) confirms having read and understood the documents relating to this grant (i.e., the Notice, the Plan and the Agreement) which were provided in the English language, (ii) accepts the terms of those documents accordingly, and (iii) agrees not to challenge the validity of this document based on Law No. 24 of 2009 on National Flag, Language, Coat of Arms and National Anthem or the implementing Presidential Regulation (when issued).

Persetujuan dan Pemberitahuan Bahasa

Dengan menerima pemberian Unit Saham Terbatas (RSUs) ini, Peserta (i) memberikan konfirmasi bahwa dirinya telah membaca dan memahami dokumen-dokumen berkaitan dengan pemberian ini (yaitu, Pemberitahuan Pemberian, Perjanjian Penghargaan dan Program) yang disediakan dalam Bahasa Inggris, (ii) menerima persyaratan di dalam dokumen-dokumen tersebut, dan (iii) setuju untuk tidak mengajukan keberatan atas keberlakuan dari dokumen ini berdasarkan Undang-Undang No. 24 Tahun 2009 tentang Bendera, Bahasa dan Lambang Negara serta Lagu Kebangsaan ataupun Peraturan Presiden sebagai pelaksanaannya (ketika diterbitkan)

Exchange Control Notice

If Participant remits funds (including proceeds from the sale of Shares) into Indonesia, the Indonesian bank through which the transaction is made will submit a report of the transaction to Bank Indonesia for statistical reporting purposes. For transactions of US\$10,000 or more, a more detailed description of the transaction must be included in the report and Participant may be required to provide information about the transaction (e.g., his or her relationship with the transferor of the funds, the source of the funds, etc.) to the bank in order for the bank to complete the report. In addition, Participant may be required to provide the Bank Indonesia with information on foreign exchange activities, which may include Shares held outside Indonesia, on a monthly basis. The reporting should be completed online through Bank Indonesia's website, by no later than the 15th day of the following month.

Ireland

Director Reporting Requirement Notice

If Participant is a director, shadow director or secretary of an Irish Parent, Subsidiary or Affiliate of the Company (an "*Irish Entity*"), and his or her interest in the Company represents more than 1% of the Company's voting share capital, Participant is subject to certain notification requirements under Section 53 of the Companies Act, 1990. Among these requirements is Participant's obligation to notify the Irish Entity in writing when he or she receives an interest (e.g., RSUs, Shares) in the Company and advise the Irish Entity of the number and class of shares or rights to which the interest relates. This notification requirement also applies to any rights acquired by Participant's spouse or minor children (under the age of 18). Participant should consult his or her personal legal advisor to ensure compliance with the applicable requirements.

Israel

Sub-Plan for Israeli Participants

The RSUs are granted under the Sub-Plan for Israeli Participants (the “*Israeli Sub-Plan*”), which is considered part of the Plan. The terms used herein shall have the meaning ascribed to them in the Plan or Israeli Sub-Plan. In the event of any conflict, whether explicit or implied, between the provision of this Agreement and the Israeli Sub-Plan, the provisions set out in the Israeli Sub-Plan shall prevail. By accepting this grant, Participant acknowledges that a copy of the Israeli Sub-Plan has been provided to Participant. The Israeli Sub-Plan may also be obtained by contacting peeps@fb.com.

Acknowledgment

This provision supplements Sections 15 and 17 of the Agreement:

Participant also (i) declares that she/he is familiar with Section 102 and the regulations and rules promulgated thereunder, including without limitations the provisions of the tax route applicable to the RSUs, and agrees to comply with such provisions, as amended from time to time, provided that if such terms are not met, Section 102 may not apply, and (ii) agrees to the terms and conditions of the trust deed signed between the Trustee and the Company and/or the applicable Subsidiary, which is available for the Participant’s review, during normal working hours, at Company’s offices, (iii) acknowledges that releasing the RSUs and Shares from the control of the Trustee prior to the termination of the Holding Period constitutes a violation of the terms of Section 102 and agrees to bear the relevant sanctions, (iv) authorizes the Company and/or the applicable Subsidiary to provide the Trustee with any information required for the purpose of administering the Plan including executing its obligations under the Ordinance, the trust deed and the trust agreement, including without limitation information about his/her RSUs, Shares, income tax rates, salary bank account, contact details and identification number, (v) declares that he/she is a resident of the State of Israel for tax purposes on the grant date and agrees to notify the Company upon any change in the residence address indicated above and acknowledges that if his/her engagement with the Company or Subsidiary is terminated and he/she is no longer employed by the Company or any Subsidiary, the RSUs and Shares shall remain subject to Section 102, the trust agreement, the Plan and this Agreement; (vi) understands and agrees that if he/she ceases to be employed or engaged by an Israeli resident Subsidiary but remains employed by the Company or any Parent, Subsidiary or Affiliate thereof, all unvested RSUs shall be forfeited to the Company with all rights of the Participant to such RSUs immediately terminating prior to his/her termination of employment or services, and any Shares already issued upon the previous vesting of RSUs shall remain subject to Section 102, the trust agreement, the Plan and this Agreement; (vii) warrants and undertakes that at the time of grant of the RSUs herein, or as a consequence of the grant, the Participant is not and will not become a holder of a “controlling interest” in the Company, as such term is defined in Section 32(9) of the Ordinance, and (viii) the grant of RSUs is conditioned upon the Participant signing all documents requested by the Company or the Trustee.

Section 102 Capital Gains Trustee Route

The RSUs are intended to be subject to the Capital Gains Route under Section 102 of the Ordinance, subject to Participant consenting to the requirements of such tax route by accepting the terms of this agreement and the grant of RSUs, and subject further to the compliance with all the terms and conditions of such tax route. Under the Capital Gains Route tax is only due upon sale of the Shares or upon release of the Shares from the holding or control of the Trustee.

Trustee Arrangement

The RSUs, the Shares issued upon vesting and/or any additional rights, including without limitation any right to receive any dividends or any shares received as a result of an adjustment made under the Plan that may be granted in connection with the RSUs (the “*Additional Rights*”), shall be issued to or controlled by the Trustee for the benefit of the Participant under the provisions of the 102 Capital Gains Route and will be controlled by the Trustee for at least the period stated in Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits in Share Issuance to Employees) 5763-2003 (the “*Rules*”). In the event the RSUs do not meet the requirements of Section 102 of the Ordinance, such RSUs and the underlying Shares shall not qualify for the favorable tax treatment under Section 102 of the Ordinance. The Company makes no representations or guarantees that the RSUs will qualify for favorable tax treatment and will not be liable or responsible if favorable tax treatment is not available under Section 102 of the Ordinance. Any fees associated with any exercise, sale, transfer or any act in relation to the RSUs shall be borne by the Participant and the Trustee and/or the Company and/or any Subsidiary shall be entitled to withhold or deduct such fees from payments otherwise due to Participant from the Company or a Subsidiary or the Trustee. In the event there is any delay in delivering the proceeds from the sale of Shares or any other funds related to participation in the Plan, neither the Company, the Trustee nor any Subsidiary is responsible for any foreign exchange rate fluctuations that may affect any amounts deliverable to the Participant.

Restrictions on Sale

In accordance with the requirements of Section 102 of the Ordinance and the Capital Gains Route, Participant shall not sell nor transfer the Shares or Additional Rights from the Trustee until the end of the required Holding Period.

Notwithstanding the above, if any such sale or transfer occurs before the end of the required Holding Period, the sanctions under Section 102 shall apply to and shall be borne by Participant.

Taxes

This provision supplements Section 6 of the Agreement and the Taxes provision in the "All Non-U.S. Jurisdictions" section of this Addendum:

The RSUs are intended to be taxed in accordance with Section 102, subject to full and complete compliance with the terms of Section 102. Participants with dual residency for tax purposes may be subject to taxation in several jurisdictions.

Any Tax imposed in respect of the RSUs and/or Shares, including, but not limited to, the grant of RSUs, and/or the vesting, transfer, waiver, or expiration of RSUs and/or Shares, and/or the sale of Shares, shall be borne solely by Participant, and in the event of death, by Participant's heirs. The Company, any Subsidiary, the Trustee or anyone on their behalf shall not be required to bear the aforementioned Taxes, directly or indirectly, nor shall they be required to gross up such Tax in Participant's salaries or remuneration. The applicable Tax shall be withheld from the proceeds of sale of Shares or shall be paid to the Company or a Subsidiary or the Trustee by Participant. Without derogating from the aforementioned, the Company or a Subsidiary or the Trustee shall be entitled to withhold Taxes as it deems compliant with applicable law and to deduct any Taxes from payments otherwise due to Participant from the Company or a Subsidiary or the Trustee. The ramifications of any future modification of applicable law regarding the taxation of the RSUs granted to Participant shall apply to Participant accordingly and Participant shall bear the full cost thereof, unless such modified laws expressly provide otherwise.

The issuance of the Shares upon the vesting of RSUs or in respect thereto, shall be subject to the full payments of any Tax (if applicable).

Securities Law Notice

An exemption from filing a prospectus with relation to the Plan has been granted to the Company by the Israeli Securities Authority. Copies of the Plan and the Form S-8 registration statement for the Plan filed with the U.S. Securities and Exchange Commission will be made available by request from peeps@fb.com.

Italy**Acknowledgment of Certain Provisions**

This provision supplements Sections 15 and 17 of the Agreement:

In accepting the RSUs, Participant acknowledges that he or she has read and specifically and expressly approves the following provisions in the Agreement: Section 5: Termination; Section 6: Withholding Taxes, as supplemented by the Taxes provision in the "All Non-U.S. Jurisdictions" section of this Addendum; Section 11: Compliance with Laws and Regulations; Section 11: Country-Specific Addendum and Additional Requirements; Section 13: Governing Law; Choice of Venue; Section 15: Nature of Grant; Section 17: Acknowledgment and Acceptance and the EU/EEA Data Privacy provision in this Addendum.

Foreign Asset/Account Reporting Notice

Italian residents who, at any time during the fiscal year, hold foreign financial assets (including cash and Shares) that may generate income taxable in Italy are required to report these assets on their annual tax returns (UNICO Form, RW Schedule) for the year during which the assets are held, or on a special form if no tax is due. These reporting obligations will also apply to Italian residents who are the beneficial owners of foreign financial assets under Italian money laundering provisions.

Japan**Foreign Asset/Account Reporting Notice**

Participant is required to report details of any assets held outside of Japan as of December 31, including shares of Common Stock acquired under the Plan, to the extent such assets have a total net fair market value exceeding ¥50,000,000.

Korea**Foreign Asset/Account Reporting Notice**

Participant must declare all of his or her foreign financial accounts (*i.e.* , non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authorities and file a report with respect to such accounts if the value of such accounts exceeds KRW 1 billion (or an equivalent amount in foreign currency) on any month-end date during the year.

Malaysia

Securities Law Notice

The grant of the RSUs in Malaysia constitutes or relates to an ‘excluded offer,’ ‘excluded invitation,’ or ‘excluded issue’ pursuant to Section 229 and Section 230 of the Capital Markets and Services Act (“ *CMSA* ”), and as a consequence no prospectus is required to be registered with the Securities Commission of Malaysia. The RSU documents do not constitute and may not be used for the purpose of a public offering or an issue, offer for subscription or purchase, invitation to subscribe for or purchase any securities requiring the registration of a prospectus with the Securities Commission in Malaysia under the CMSA.

Director Reporting Requirement Notice

If Participant is a director of a Malaysian Parent, Subsidiary or Affiliate (a “ *Malaysian Entity* ”), he or she is subject to certain notification requirements under the Malaysian Companies Act, 1965. Among these requirements is an obligation to notify the Malaysian Entity in writing when Participant receives an interest (e.g., RSUs, Shares, etc.) in the Company or any of its related companies. In addition, Participant must notify the Malaysian Entity when he or she sell Shares of the Company or any of its related companies (including when he or she sells Shares acquired upon vesting and settlement of the RSUs). Additionally, Participant must also notify the Malaysian Entity if there are any subsequent changes in his or her interest in the Company or any related companies. These notifications must be made within fourteen (14) days of acquiring or disposing of any interest in the Company or any of its related companies.

Mexico

Labor Law Policy and Acknowledgment

By accepting the RSUs, Participant expressly recognizes that Facebook, Inc., with registered offices at 1601 Willow Road, Menlo Park, California 94025, U.S.A., is solely responsible for the administration of the Plan and that Participant's participation in the Plan and acquisition of Shares do not constitute an employment relationship between Participant and the Company since Participant is participating in the Plan on a wholly commercial basis and Participant's sole Employer is Facebook Mexico S De RL De CV ("Facebook-Mexico"). Based on the foregoing, Participant expressly recognizes that the Plan and the benefits that Participant may derive from his or her participation in the Plan do not establish any rights between Participant and Facebook-Mexico, and do not form part of the employment conditions and/or benefits provided by Facebook-Mexico and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of Participant's employment.

Participant further understands that his or her participation in the Plan is a result of a unilateral and discretionary decision of the Company; therefore, the Company reserves the absolute right to amend and/or discontinue Participant's participation at any time without any liability to Participant.

Finally, Participant hereby declares that he or she does not reserve any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and Participant therefore grants a full and broad release to the Company, its Affiliates, branches, representation offices, its shareholders, officers, agents or legal representatives with respect to any claim that may arise.

Plan Document Acknowledgment

By accepting the RSUs, Participant acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Agreement in their entirety and fully understands and accepts all provisions of the Plan and the Agreement. In addition, by accepting the RSUs, Participant acknowledges that he or she has read and specifically and expressly approves the terms and conditions in Section 15 of the Agreement ("Nature of Grant"), in which the following is clearly described and established: (i) participation in the Plan does not constitute an acquired right; (ii) the Plan and participation in the Plan is offered by the Company on a wholly discretionary basis; (iii) participation in the Plan is voluntary; and (iv) neither the Company, the Employer nor any Affiliate is responsible for any decrease in the value of the Shares underlying the RSUs.

Política de la Ley Laboral y Reconocimiento

Al aceptar las Unidades de Acciones Restringidas (RSU), el Participante reconoce expresamente que Facebook, Inc., con oficinas registradas ubicadas a 1601 Willow Road, Menlo Park, California 94025, U.S.A., es el único responsable de la administración del Plan y que participación del Participante en el mismo y la adquisición de Acciones no constituye de ninguna manera una relación laboral entre el Participante y la Compañía, debido a que la participación de esa persona en el Plan deriva únicamente de una relación comercial y el único Patrón del participante es Facebook Mexico S De RL De CV ("Facebook-Mexico"). Derivado de lo anterior, el Participante reconoce expresamente que el Plan y los beneficios que pudieran derivar para el Participante por su participación en el mismo, no establecen ningún derecho entre el Participante e Facebook-México, y no forman parte de las condiciones laborales y/o prestaciones otorgadas por Facebook-México, y cualquier modificación al Plan o la terminación del mismo de ninguna manera podrá ser interpretada como una modificación o desmejora de los términos y condiciones de trabajo del Participante.

Asimismo, el Participante reconoce que su participación en el Plan es resultado de la decisión unilateral y discrecional de la Compañía, por lo tanto, la Compañía se reserva el derecho absoluto para modificar y/o discontinuar la participación del Participante en cualquier momento, sin ninguna responsabilidad hacia el Participante.

Finalmente el Participante manifiesta que no se reserva ninguna acción o derecho que ejercitar en contra de la Compañía, por cualquier compensación o daños o perjuicios en relación con cualquier disposición del Plan o de los beneficios derivados del mismo, y en consecuencia exime amplia y completamente a la Compañía, sus Afiliadas, sucursales, oficinas de representación, sus accionistas, administradores, agentes y representantes legales con respecto a cualquier reclamo que pudiera surgir.

Reconocimiento de Documentos del Plan

Al aceptar las Unidades de Acciones Restringidas (RSU), el Participante reconoce que ha recibido una copia del Plan, que ha revisado el Plan y el Acuerdo de Concesión en su totalidad y entiende y acepta los términos del Plan y del Acuerdo de Concesión. Adicionalmente, al aceptar los RSU, el Participante reconoce que ha leído y especifica y expresamente aprueba los términos y condiciones del Sección 15 del Acuerdo de Concesión (denominado "Naturaleza de la Concesión"), donde claramente se establece que (i) la participación en el Plan no constituye un derecho adquirido, (ii) el Plan y la participación en el Plan es ofrecido por la Compañía en forma totalmente discrecional; (iii) la participación en el Plan es voluntaria; y (iv) ni la Compañía ni el Patrón ni su Afiliada es responsable por el decremento en el valor de las acciones de los RSU.

Netherlands	There are no country-specific provisions.
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New Zealand	Securities Law Notice
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WARNING: This is an offer of Restricted Stock Units over Shares which, once vested and settled in accordance with the terms of the Agreement and the Plan, will give Participant a stake in the ownership of the Company. Participant may receive a return if dividends are paid. If the Company runs into financial difficulties and is wound up, Participant will only be paid after all creditors have been paid. Participant may lose some or all of his or her investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, Participant may not be given all the information usually required. Participant will also have fewer other legal protections for this investment. Ask questions, read all documents carefully, and seek independent financial advice before committing.

The Shares are quoted on the Nasdaq. This means Participant may be able to sell them on the Nasdaq if there are interested buyers. Participant may get less than he or she invested. The price will depend on the demand for the Shares.

For information on risk factors impacting the Company's business that may affect the value of the Shares, Participant should refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's "Investor Relations" website at <https://investor.fb.com/>.

Norway	There are no country-specific provisions.
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Philippines

Securities Law Notice

Participant should be aware of the risks of participating in the Plan, which include (without limitation) the risk of fluctuation in the price of the Shares on the Nasdaq and the risk of currency fluctuations between the U.S. Dollar and his or her local currency. In this regard, Participant should note that the value of any Shares he or she may acquire under the Plan may decrease, and fluctuations in foreign exchange rates between his or her local currency and the U.S. Dollar may affect the value of the RSUs or any amounts due to Participant upon vesting and settlement of the RSUs or upon sale of any Shares he or she acquires under the Plan. The Company is not making any representations, projections or assurances about the value of the Shares now or in the future.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, Participant should refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov/, as well as on the Company's "Investor Relations" website at <https://investor.fb.com/>.

Participant is permitted to sell the Shares acquired under the Plan through the designated broker appointed under the Plan (or such other broker to whom he or she transfers the Shares), provided the resale of Shares acquired under the Plan takes place outside of the Philippines through the facilities of a stock exchange on which the Shares are listed (e.g., the Nasdaq).

Poland

Exchange Control Notice

If Participant maintains bank or brokerage accounts holding cash and foreign securities (including Shares) outside of Poland, he or she will be required to report information to the National Bank of Poland on transactions and balances in such accounts if the value of such cash and securities exceeds PLN 7 million. If required, such reports must be filed on special forms available on the website of the National Bank of Poland. In addition, any transfer of funds in excess of EUR15,000 into or out of Poland must be effected through a bank account in Poland. Lastly, Participant is required to store all documents connected with any foreign exchange transactions that he or she engages in for a period of five years, as measured from the end of the year in which such transaction occurred.

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Singapore

Securities Law Notice

The grant of the RSUs is being made pursuant to the “Qualifying Person” exemption” under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“*SFA*”) and is not made with a view to the Shares being subsequently offered for sale to any other party. The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. The RSUs are subject to section 257 of the SFA and Participant will not be able to make (i) any subsequent sale of the Shares in Singapore or (ii) any offer of such subsequent sale of the Shares subject to the RSUs in Singapore, unless such sale or offer is made (a) more than six months after the date of grant or (b) pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.).

CEO and Director Reporting Requirement Notice

If Participant is the Chief Executive Officer (“*CEO*”) or a director, associate director or shadow director of a Singaporean Parent, Subsidiary or Affiliate (a “*Singaporean Entity*”), he or she is subject to certain notification requirements under the Singapore Companies Act. Among these requirements is an obligation to notify the Singaporean Entity in writing when he or she receives or dispose of an interest (e.g., RSUs, Shares) in the Company or any related companies. These notifications must be made within two business days of acquiring or disposing of any interest in the Company or any related company. In addition, a notification must be made of Participant’s interests in the Company or any related company within two business days of becoming the CEO or a director, associate director or shadow director.

Exit Tax / Deemed Vesting Rule

If Participant is (a) neither a Singapore citizen nor a Singapore permanent resident, and he or she (i) intends to leave Singapore for any period exceeding three months, (ii) will be posted overseas on a secondment, or (iii) are about to cease employment with the Singaporean Entity with which Participant was employed at the time of grant, regardless of whether he or she intends to remain in Singapore, or (b) a Singapore permanent resident, and Participant (i) intends to leave Singapore for any period exceeding three months, (ii) will be posted overseas on a secondment or (iii) are about to cease employment with the Singaporean Entity with which he or she was employed at the time of grant and intend to leave Singapore on a permanent basis, Participant may be subject to an exit tax upon his or her departure from Singapore or cessation of employment, as applicable. In such case, Participant will be taxed on his or her Award on a “deemed vesting” basis, i.e., Participant will be deemed to have vested in his or her RSUs on the later of (A) one month before the date he or she departs Singapore or cease employment, or (B) the date on which his or her RSUs were granted. If Participant is subject to the exit tax, he or she acknowledges and agrees that the Employer will report details of Participant’s departure from Singapore or cessation of employment to the Inland Revenue Authority of Singapore and will withhold any income payable to him or her for a period of up to 30 days. Participant should consult with a personal tax advisor in the event he or she may be subject to these exit tax rules.

South Africa**Taxes**

This provision supplements Section 6 of the Agreement and the Taxes provision in the "All Non-U.S. Jurisdictions" section of this Addendum:

By accepting the RSUs, Participant agrees that, immediately upon vesting of the RSUs, Participant will notify his or her employer of the amount of any gain realized. If Participant fails to advise his or her employer of the gain realized upon vesting, Participant may be liable for a fine. Participant will be solely responsible for paying any difference between the actual tax liability and the amount withheld by his or her employer.

Securities Law Notice

In compliance with South African securities law, the documents listed below are available for review at the addresses listed below:

- The Company's most recent annual financial statement:
<https://investor.fb.com/>.
- The Company's most recent Plan prospectus:
<http://www.schwab.com/facebook>

A hard copy of the above documents will be sent to Participant free of charge upon written request to: peeps@fb.com.

Exchange Control Notice

Participant is solely responsible for complying with applicable South African exchange control regulations. Since the exchange control laws change frequently and without notice, Participant should consult his or her legal advisor prior to the acquisition or sale of Shares acquired under the Plan to ensure his or her compliance with current regulations.

Nature of Grant

This provision supplements Section 15 of the Agreement:

Participant understands that the Company has unilaterally, gratuitously and discretionally decided to grant RSUs to individuals who may be employees of the Company or a Parent, Subsidiary or Affiliate throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Parent, Subsidiary or Affiliate on an ongoing basis other than as stated in this Agreement. Consequently, Participant understands that the RSUs are granted on the assumption and condition that the RSUs and any Shares to be issued upon vesting of the RSUs are not part of any employment contract (either with the Company or any Parent, Subsidiary or Affiliate) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right. Further, Participant understands that the RSUs would not be granted to Participant but for the assumptions and conditions referred to herein; thus, Participant acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the grant of the RSUs and any right to the Shares shall be null and void.

Participant understands and agrees that, as a condition of the grant of the RSUs, Termination for any reason (including the reasons listed below) will automatically result in the loss of the RSUs that may have been granted to Participant and that have not vested as of date of Termination as described in Section 5 of the Agreement. In particular, Participant understands and agrees that any unvested RSUs as of the date of Termination will be forfeited without entitlement to the underlying Shares or to any amount of indemnification in the event of a Termination by reason of, but not limited to, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective dismissal on objective grounds, whether adjudged or recognized to be with or without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Participant's employer and under Article 10.3 of the Royal Decree 1382/1985. Participant acknowledges that he or she has read and specifically accepts the conditions referred to in Section 5 of the Agreement.

Exchange Control Notice

The acquisition, ownership and disposition of Shares must be declared for statistical purposes to the Spanish “*Dirección General de Comercio e Inversiones*” (the DGC), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness. Generally, the declaration must be made by filing a D-6 form each January for Shares purchased or sold during (or owned by Participant as of December 31) of the prior year; however, if the value of Shares acquired or sold exceeds €1,502,530 (or Participant holds 10% or more of the share capital of the Company or such other amount that would entitle him or her to join the Company's Board of Directors), the declaration must also be filed within one month of the acquisition or sale, as applicable.

In addition, Participant may be required to declare electronically to the Bank of Spain any securities accounts (including brokerage accounts) held abroad, any foreign instruments (including Shares), and any transactions with non-Spanish residents (including any payments of Shares made to Participant by the Company) depending on the value of the transactions during the relevant year or the balances in such accounts and the value of such instruments as of December 31 of the relevant year. Participant should consult with his or her personal legal advisor regarding the applicable thresholds and corresponding reporting requirements.

Foreign Asset/Account Reporting Notice

To the extent that Participant holds assets or rights outside of Spain (e.g. , Shares or cash held in a brokerage or bank account) with a value in excess of €50,000 per asset type as of December 31 (or at any time during the year in which the asset is sold), he or she will be required to report information on such assets or rights on his or her tax return (tax form 720) for such year. After such assets or rights are initially reported, the reporting obligation will apply for subsequent years only if the value of any previously-reported assets or rights increases by more than €20,000, or if the ownership of such assets or rights is transferred or relinquished during the year. The report must be completed by March 31.

Sweden	There are no country-specific provisions.
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Switzerland	Securities Law Notice The award of RSUs is considered a private offering in Switzerland; therefore, it is not subject to registration. Participant should note that neither this document nor any other materials relating to the RSUs (i) constitute a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, (ii) may be publicly distributed nor otherwise made publicly available in Switzerland, and (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority (in particular, the Swiss Financial Market Supervisory Authority).
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Taiwan	Exchange Control Notice Participant may acquire and remit foreign currency (including proceeds from the sale of Shares) into and out of Taiwan up to US \$5,000,000 per year. If the transaction amount is TWD 500,000 or more in a single transaction, he or she must submit a foreign exchange transaction form and also provide supporting documentation to the satisfaction of the remitting bank. If the transaction amount is US \$500,000 or more, Participant may be required to provide additional supporting documentation to the satisfaction of the remitting bank.
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Thailand	Exchange Control Notice If Participant receives proceeds from the sale of Shares in excess of US\$50,000 in a single transaction, he or she must immediately repatriate the funds to Thailand and convert the funds to Thai Baht within 360 days of repatriation or deposit the funds in an authorized foreign exchange account in Thailand. Participant must also report the inward remittance by submitting the Foreign Exchange Transaction Form to an authorized agent.
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Arab Securities Law Notice

The Plan is only being offered to qualified employees and is in the nature of providing equity incentives to employees of the Company's Subsidiary in the United Arab Emirates. The Plan and the Agreement are intended for distribution only to such employees and must not be delivered to, or relied on by, any other person. Participant should conduct his or her own due diligence on the RSUs offered pursuant to this Agreement. If Participant does not understand the contents of the Plan and/or the Agreement, he or she should consult an authorized financial adviser. The Emirates Securities and Commodities Authority and the Dubai Financial Services Authority have no responsibility for reviewing or verifying any documents in connection with the Plan. Further, the Ministry of the Economy and the Dubai Department of Economic Development have not approved the Plan or the Agreement nor taken steps to verify the information set out therein, and have no responsibility for such documents.

United Kingdom Settlement

This provision supplements Section 1 of the Agreement:

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

Taxes

This provision supplements Section 6 of the Agreement and the Taxes provision in the "All Non-U.S. Jurisdictions" section of this Addendum:

Without limitation to Section 6 of the Agreement, Participant agrees to be liable for any Tax-Related Items related to his or her participation in the Plan and legally applicable to Participant and hereby covenants to pay any such Tax-Related Items, as and when requested by the Company or the Employer or Her Majesty's Revenue & Customs ("**HMRC**") (or any other tax authority or any other relevant authority). Participant also agrees to indemnify and keep indemnified the Company and the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on Participant's behalf.

Notwithstanding the foregoing, if Participant is an executive officer or director (as within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In the event that Participant is an executive officer or director and the income tax is not collected from or paid by Participant within ninety (90) days of the end of the U.K. tax year in which an event giving rise to the indemnification described above occurs, the amount of any uncollected income tax may constitute a benefit to Participant on which additional income tax and national insurance contributions may be payable. Participant acknowledges that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to the HMRC under the self-assessment regime and for paying the Company or the Employer, as applicable, for the value of any employee national insurance contributions due on this additional benefit.

LIST OF SUBSIDIARIES
FACEBOOK, INC.

Andale, Inc. (Delaware)
Cassin Networks ApS (Denmark)
Edge Network Services Limited (Ireland)
Facebook International Operations Limited (Ireland)
Facebook Ireland Holdings Unlimited (Ireland)
Facebook Ireland Limited (Ireland)
Facebook Operations, LLC (Delaware)
Facebook Sweden Holdings AB (Sweden)
Facebook Technologies, LLC (Delaware)
FCL Tech Limited (Ireland)
Global Holdings I Inc. (Delaware)
Global Holdings I LLC (Delaware)
Global Holdings II LLC (Delaware)
Greater Kudu LLC (Delaware)
Instagram, LLC (Delaware)
KUSU PTE. Ltd. (Singapore)
Malkoha PTE Ltd. (Singapore)
Morning Hornet LLC (Delaware)
Parse, LLC (Delaware)
Pinnacle Sweden AB (Sweden)
Raven Northbrook LLC (Delaware)
Runways Information Services Ltd (Ireland)
Scout Development LLC (Delaware)
Siculus, Inc. (Delaware)
Sidecat LLC (Delaware)
Stadion LLC (Delaware)
Starbelt LLC (Delaware)
Vitesse, LLC (Delaware)
WhatsApp Inc. (Delaware)
Winner LLC (Delaware)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-222823) pertaining to the 2012 Equity Incentive Plan of Facebook, Inc.,
- (2) Registration Statement (Form S-8 No. 333-186402) pertaining to the 2012 Equity Incentive Plan of Facebook, Inc.,
- (3) Registration Statement (Form S-8 No. 333-181566) pertaining to the 2005 Officers' Stock Plan, 2005 Stock Plan, and 2012 Equity Incentive Plan of Facebook, Inc., and
- (4) Registration Statement (Form S-8 No. 333-199172) pertaining to the Non-Plan Restricted Stock Unit Awards of Facebook, Inc.

of our reports dated January 31, 2019, with respect to the consolidated financial statements of Facebook, Inc. and the effectiveness of internal control over financial reporting of Facebook, Inc. included in this Annual Report (Form 10-K) of Facebook, Inc. for the year ended December 31, 2018.

/s/ Ernst & Young LLP

San Francisco, California

January 31, 2019

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Mark Zuckerberg, certify that:

1. I have reviewed this annual report on Form 10-K of Facebook, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2019

/s/ MARK ZUCKERBERG

Mark Zuckerberg

Chairman and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, David M. Wehner, certify that:

1. I have reviewed this annual report on Form 10-K of Facebook, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2019

/s/ DAVID M. WEHNER

David M. Wehner

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Zuckerberg, Chairman and Chief Executive Officer of Facebook, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: January 31, 2019

/s/ MARK ZUCKERBERG

Mark Zuckerberg

Chairman and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Wehner, Chief Financial Officer of Facebook, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: January 31, 2019

/s/ DAVID M. WEHNER

David M. Wehner

Chief Financial Officer

(Principal Financial Officer)