08

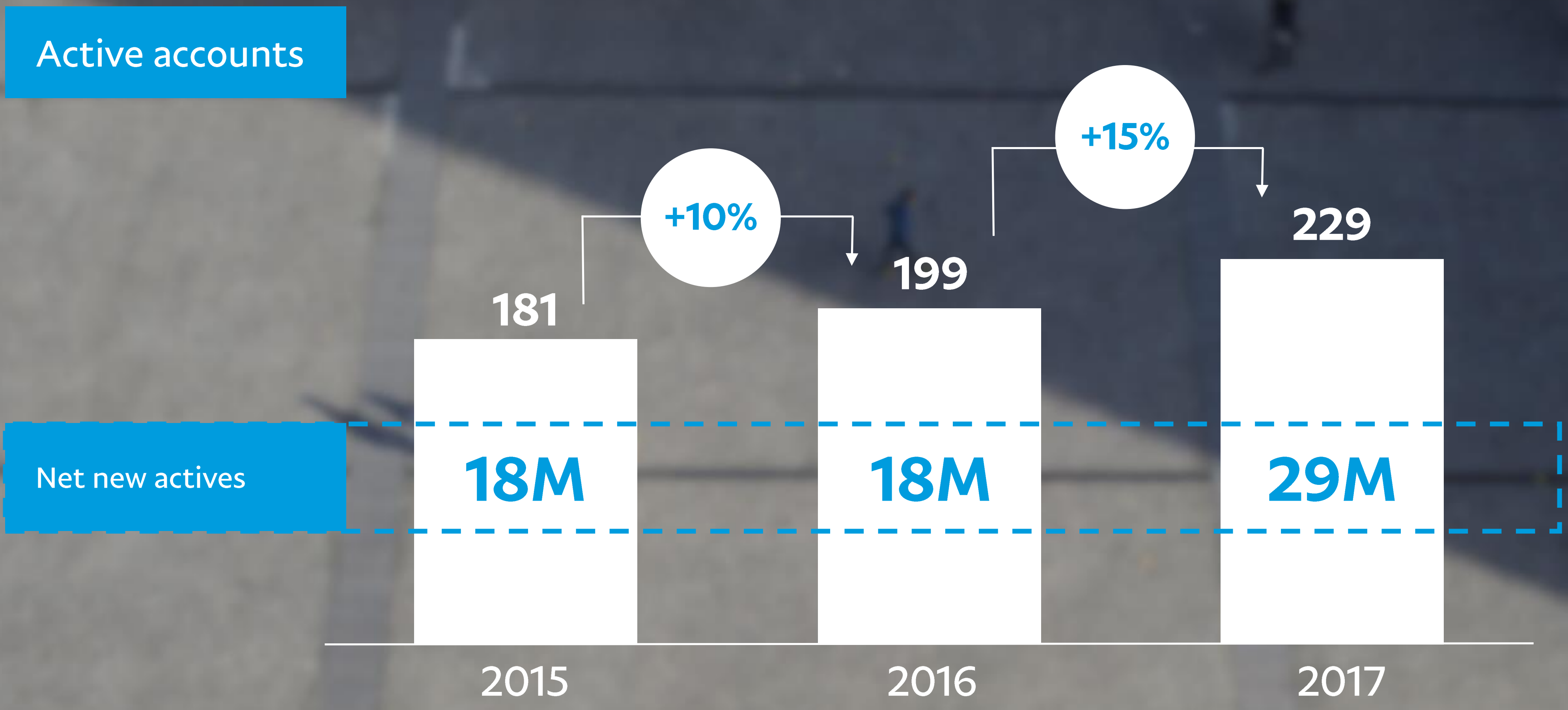
Financial Update

John Rainey
Chief Financial Officer and
EVP, Global Customer Operations

At separation, we were a high-growth company establishing a track record

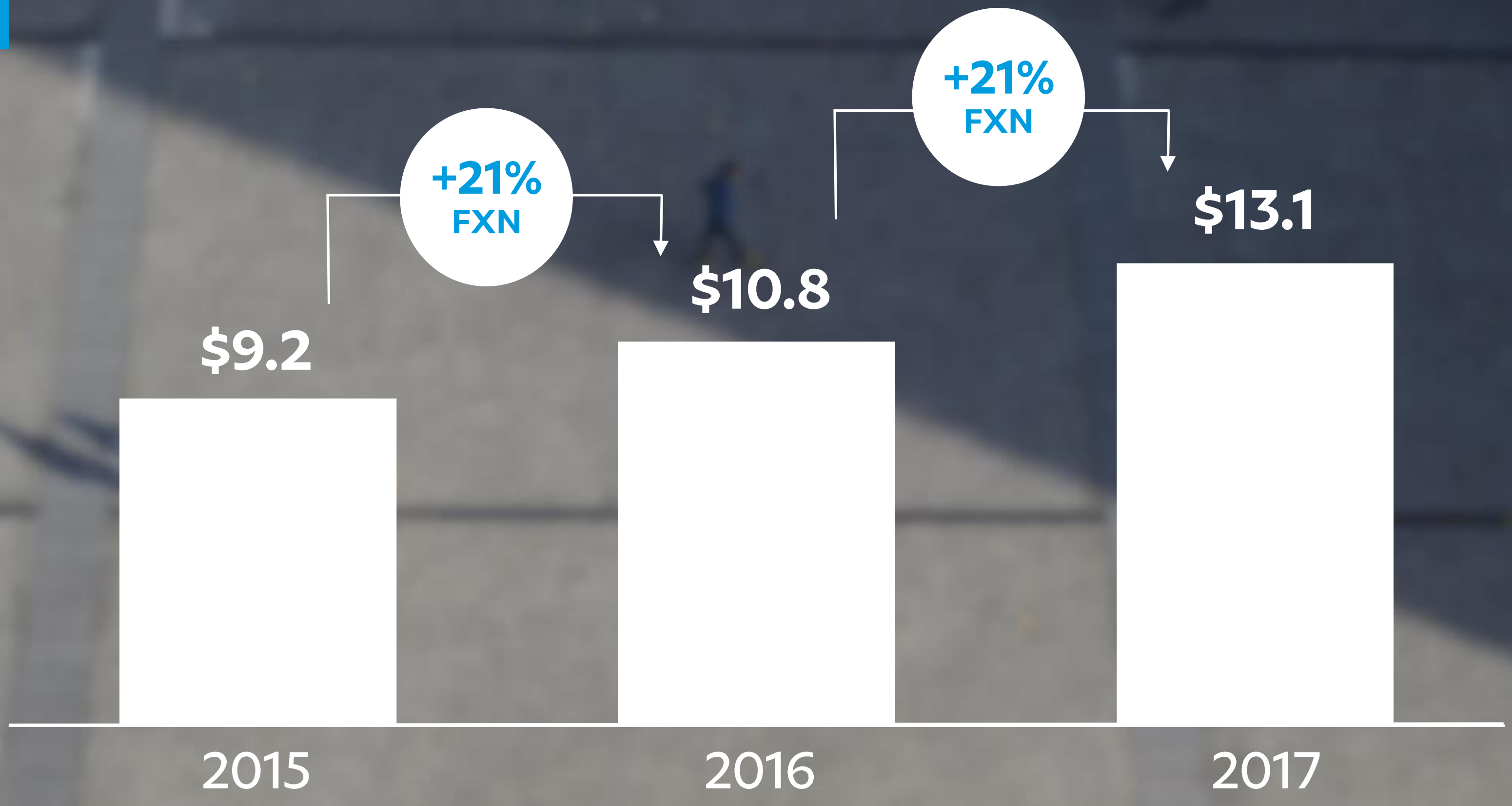
- Competition Increasing
- Ability to Improve Margin Profile
- Capital Intensive Credit Strategy

We have delivered consistent operating and financial performance



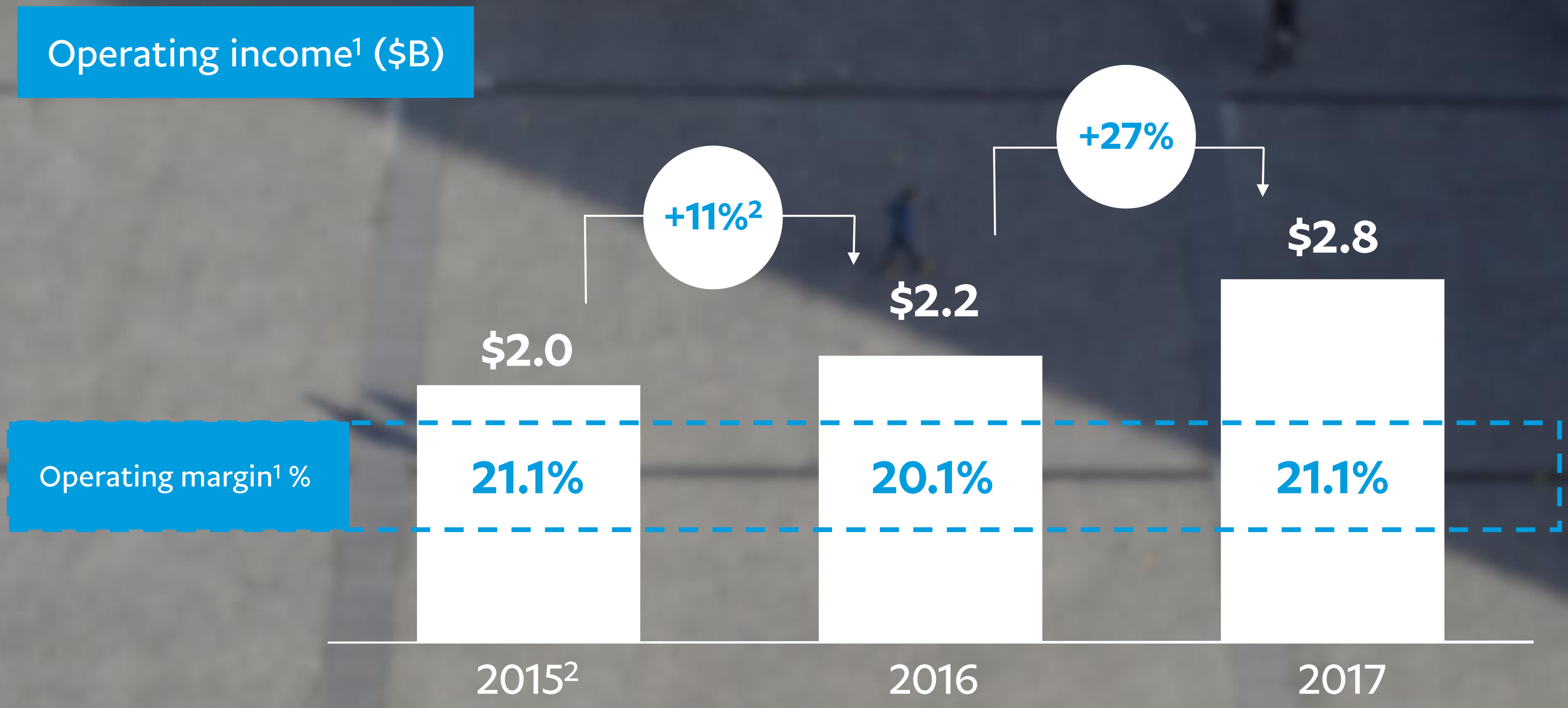
We have delivered consistent operating and financial performance

Revenue[1] ($B)



[1] Revenue is presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measures
2015 data has been presented on a non-GAAP pro forma basis.

We have delivered consistent operating and financial performance

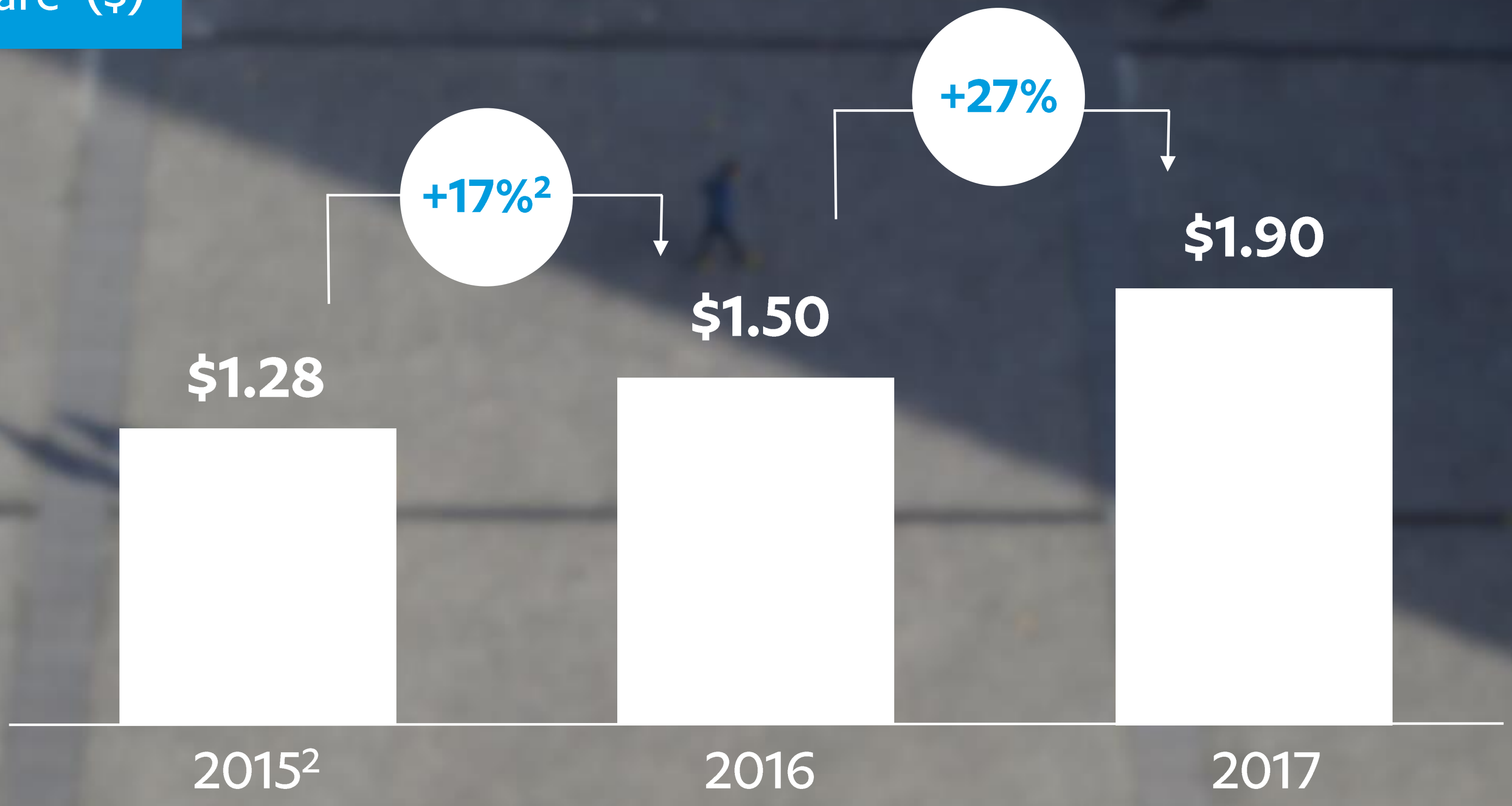


PayPal

[1] Operating Income and operating margin is presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] Operating Income and margin for FY15 has been presented on a non-GAAP pro forma basis

We have delivered consistent operating and financial performance

Earnings Per Share[1] ($)



[1] Earnings Per Share is presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] Earnings Per Share for FY15 has been presented on a non-GAAP pro forma basis

Since separation, we've delivered…

Added 66M+ net new actives[1]

Agreements with 7 of the Top 10 U.S. banks and networks

19% Revenue CAGR[2]

Non-transaction related expense growth reduced by ~270bps[3]

U.S. consumer credit sale to Synchrony Financial

$3.8B in share repurchases

[1] Q1'18 vs Q2'15
[2] CAGR from 2015 to 2017
[3] 2015 vs 2017 adjusted for held for sale impact of $92M in 2017

Revenue Opportunity

PayPal

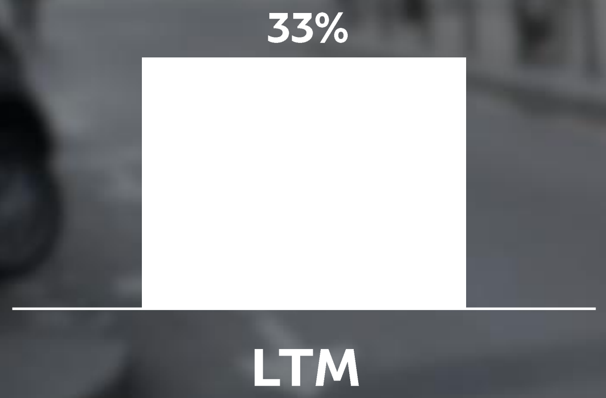
Our partnerships today

Our partnership strategy (pre-separation)

We're growing together with our partners

PayPal Merchant Services TPV growth

Last twelve months (LTM) Y/Y volume growth (spot)



Growing together with our partners

Last twelve months (LTM) Y/Y volume growth (spot)

~42%

~8%

Last twelve months as of Q1'18
Note: Logos presented are representative of the top 20 partners and marketplaces

We are a global company with global solutions

CORE DEVELOPED

UNDERPENETRATED

RAPIDLY EMERGING

Core developed markets with growing penetration and engagement

Today

Digital users

650M+

PayPal penetration

~30%

Focus: Deepening engagement

Strategies: Consumer Financial Services + In-store

Products: Pay with Venmo and Credit

CORE DEVELOPED

UNDERPENETRATED

RAPIDLY EMERGING

Source: Digital Users numbers are based on eMarketer
PayPal penetration based on internal data and projections

Underpenetrated markets offer opportunities for growth and partnership

Today

Digital users	PayPal penetration
1.6B+	~1%

Focus: Growing actives and transactions

Strategies: Domestic solutions and B2B

Key partners: AliExpress, Baidu

CORE DEVELOPED

UNDERPENETRATED

RAPIDLY EMERGING

Source: Digital Users numbers are based on eMarketer
PayPal penetration based on internal data and projections

Rapidly emerging markets will have a cross-border focus

Today

Digital users	PayPal penetration
1.3B+	~1%

Focus: Cross border transaction volume

Strategies: Enabling local partners

CORE DEVELOPED

UNDERPENETRATED

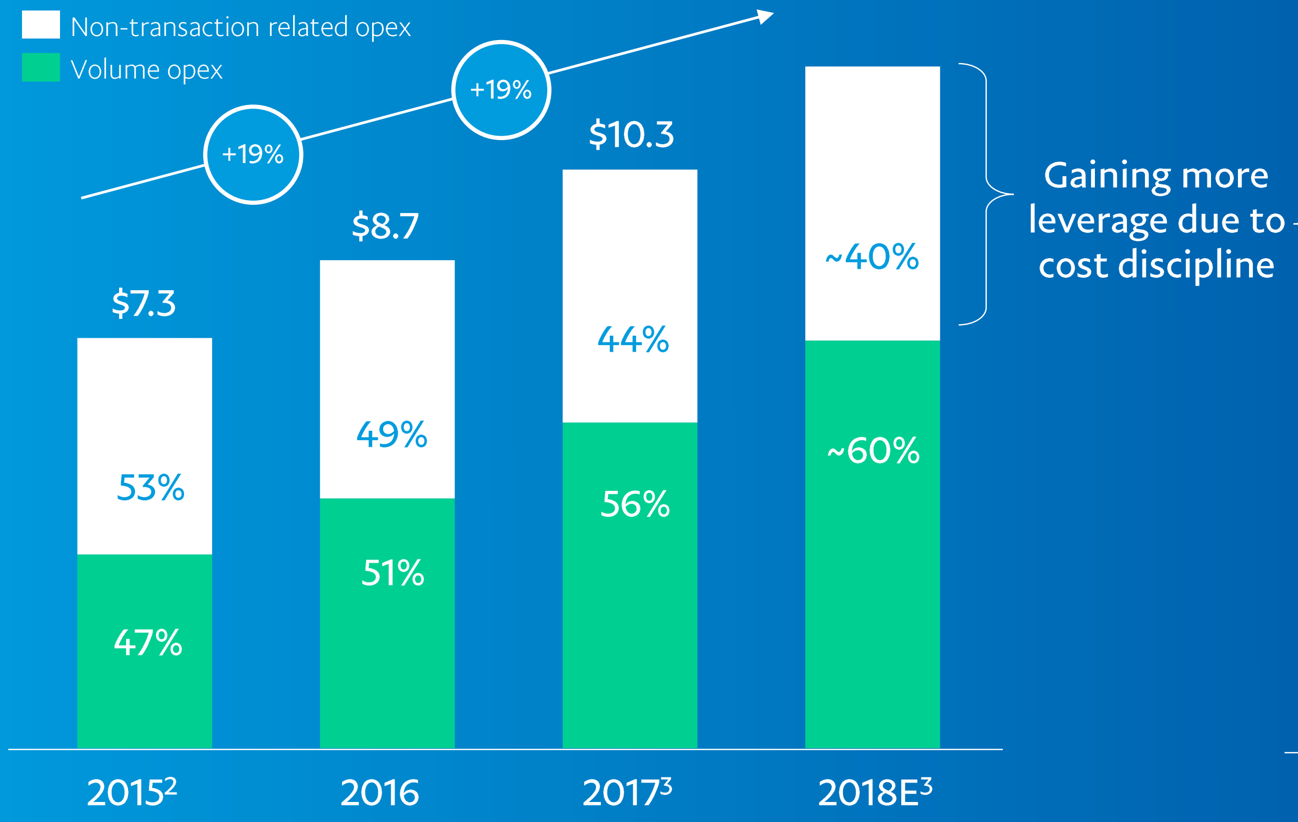
RAPIDLY EMERGING

Source: Digital Users numbers are based on eMarketer
PayPal penetration based on internal data and projections

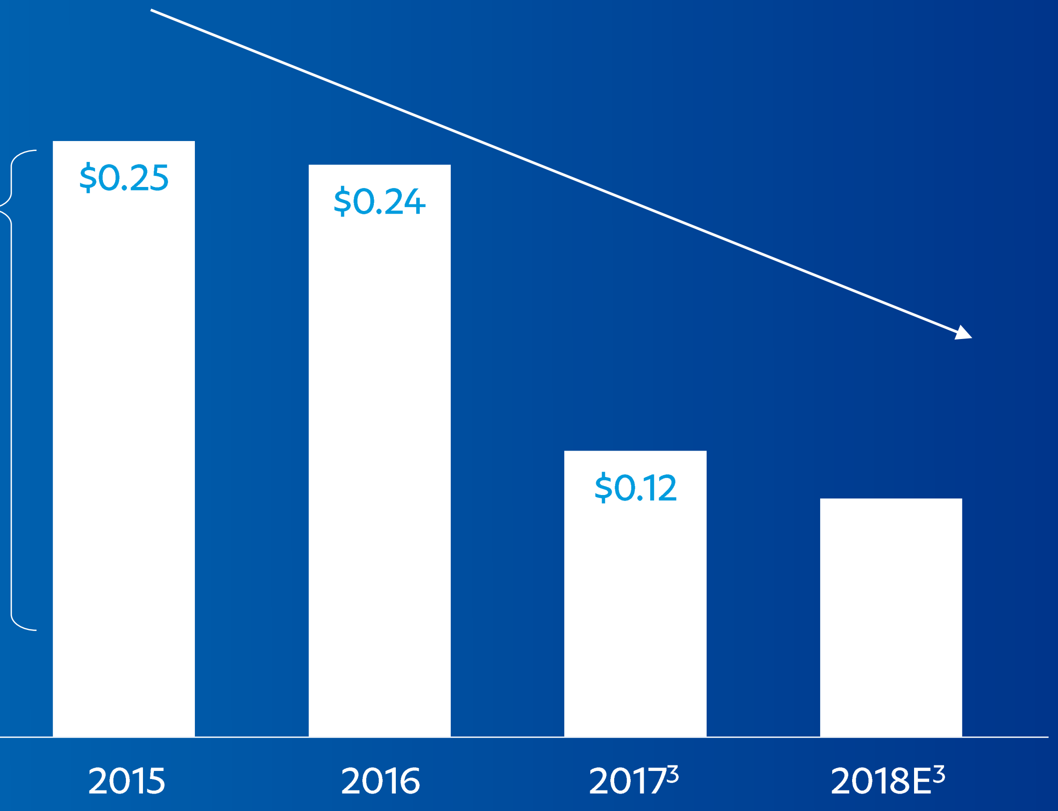
Cost Efficiencies

Cost leverage is driving discipline

Total expenses: Volume opex + non-transaction related opex[1] ($B)

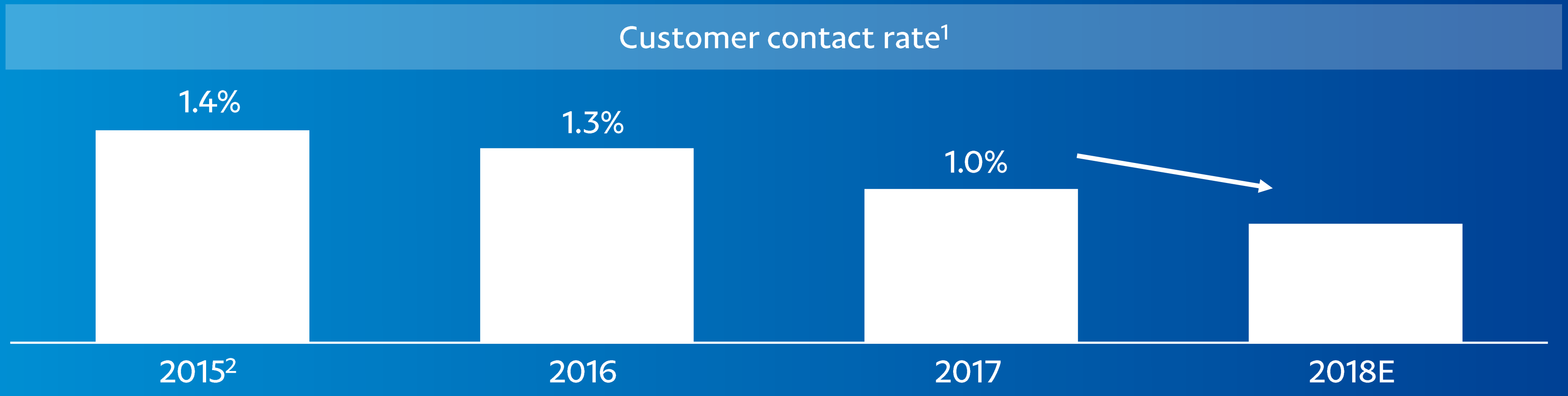


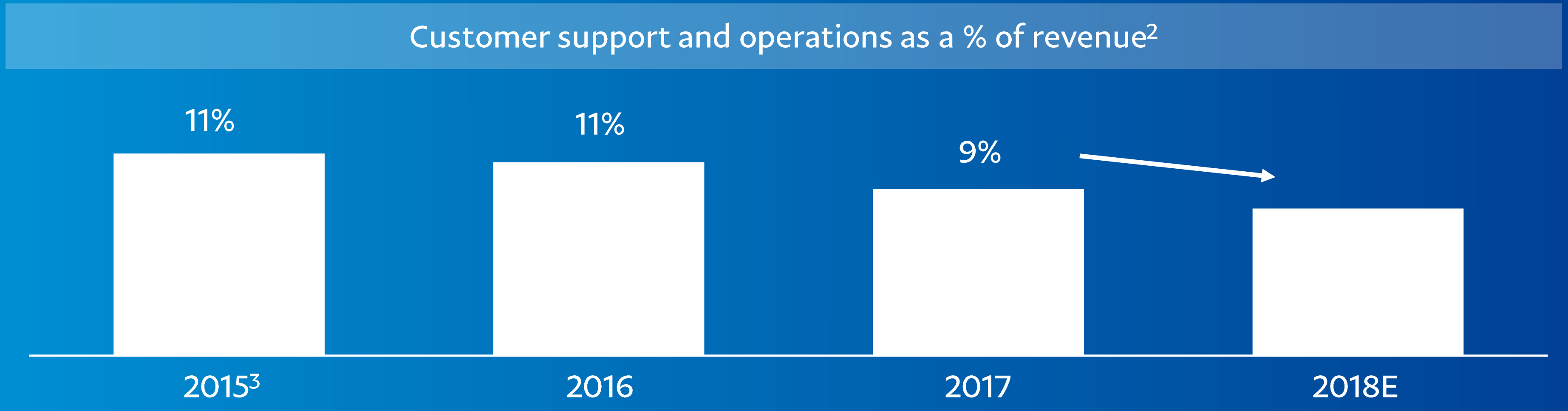
Incremental non-transaction related opex per dollar of incremental revenue



[1] Non-transaction related opex is presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] 2015 presented on a non-GAAP pro forma basis
[3] Numbers for 2017 and 2018 have been adjusted for held for sale accounting

Customer support

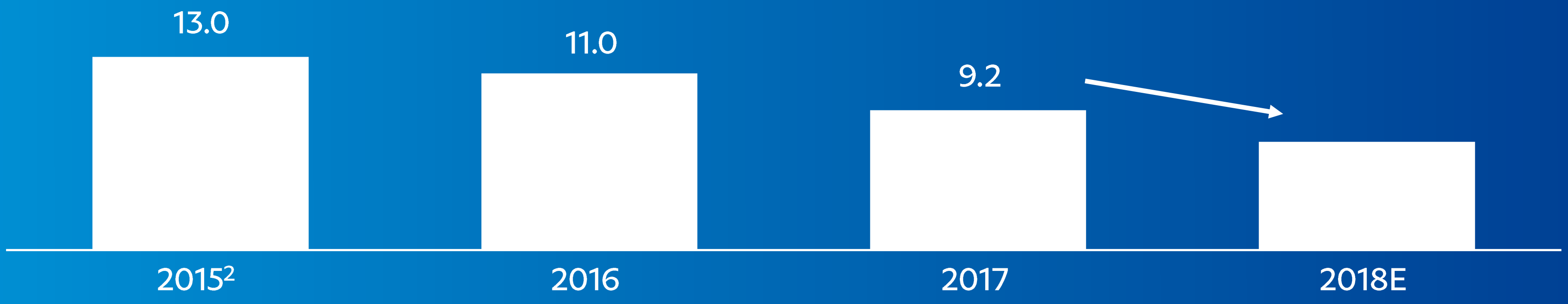




[1]Customer contact rate represents the number of customer contacts per transaction
[2]Customer support and operations and revenue are presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[3] 2015 presented on a non-GAAP pro forma basis

Product development

Product development cost[1] per transaction (cents)

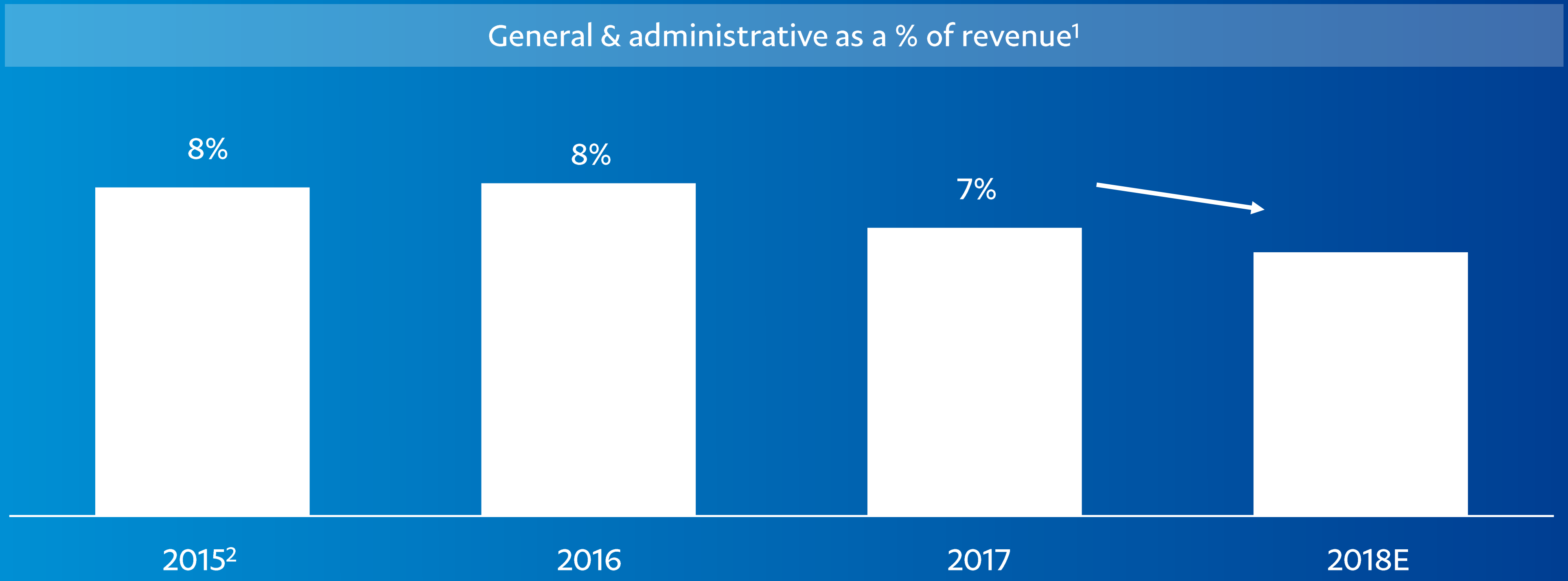


Product development cost as a % of revenue[1]

PayPal

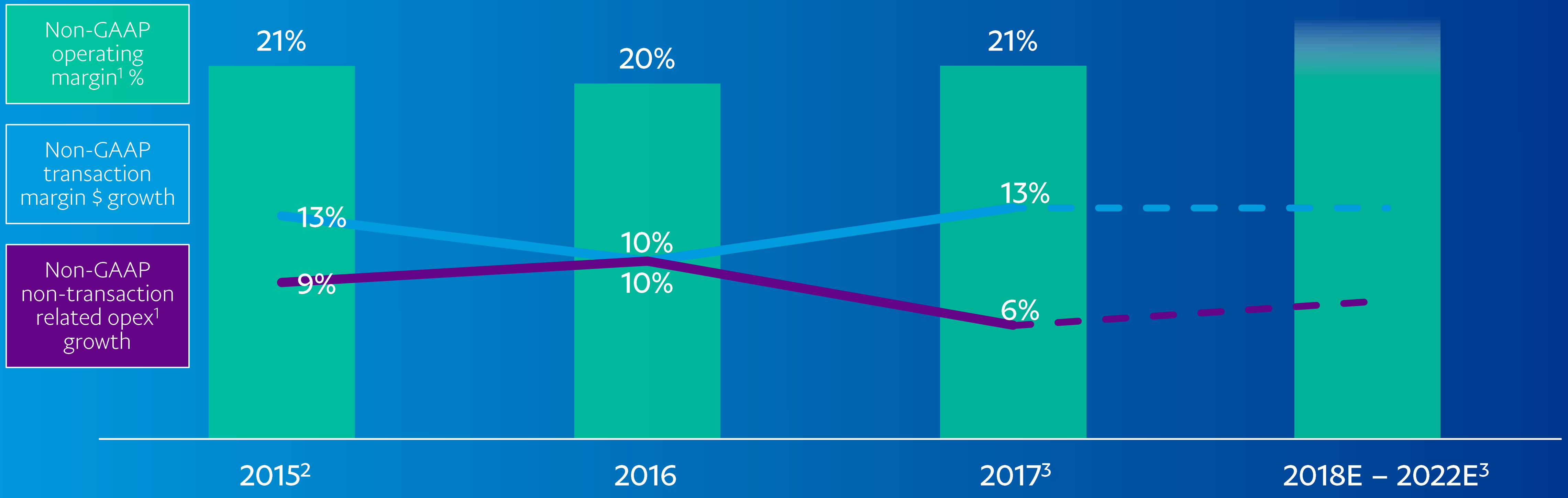
[1] Product development and revenue are presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] 2015 presented on a non-GAAP pro forma basis

General & administrative



[1] General & administrative and revenue are presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] 2015 presented on a non-GAAP pro forma basis

Expanding operating margins

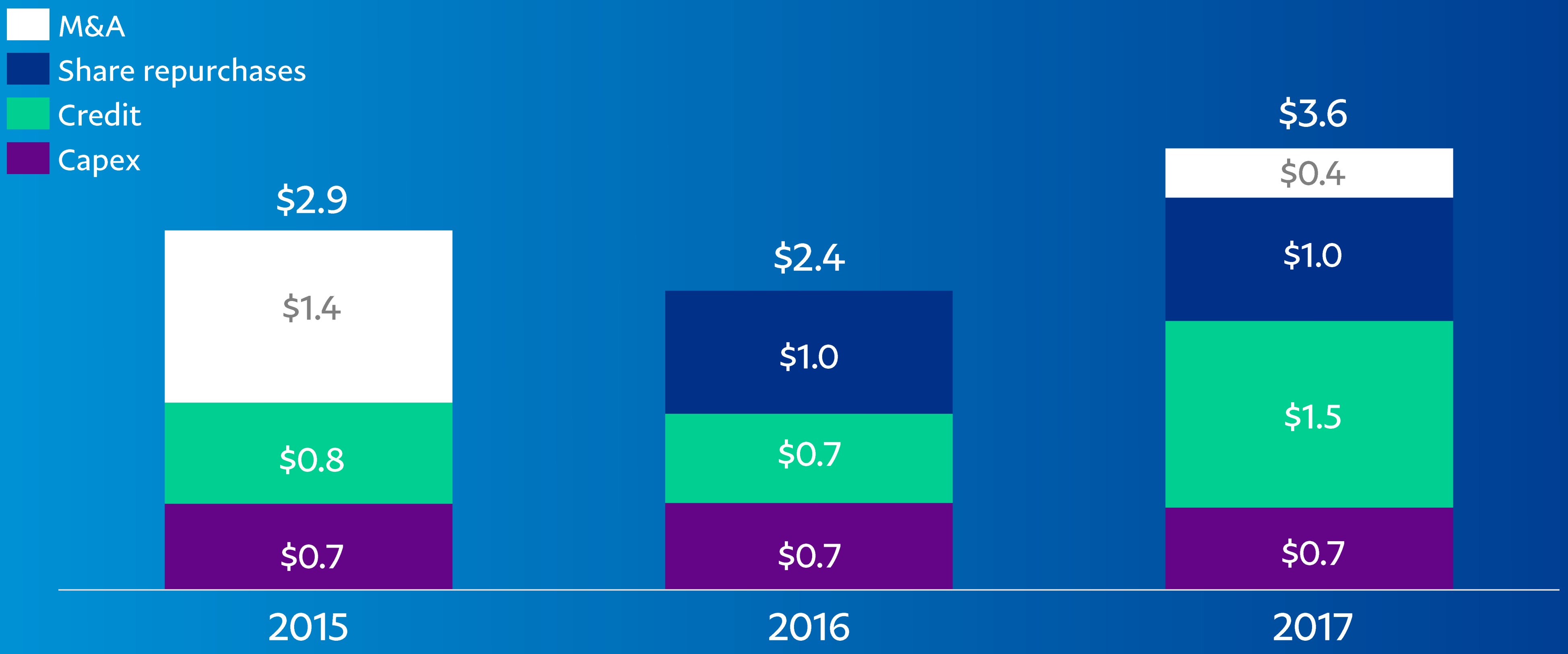


[1] Non-transaction related opex growth and operating margin % is presented on a non-GAAP basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure
[2] 2015 data has been presented on a non-GAAP pro forma basis
[3] Non-GAAP operating margin, transaction margin $ and non-transaction related expense growth rates in 2017 and 2018E-2022E have been adjusted for held for sale accounting

Capital Allocation

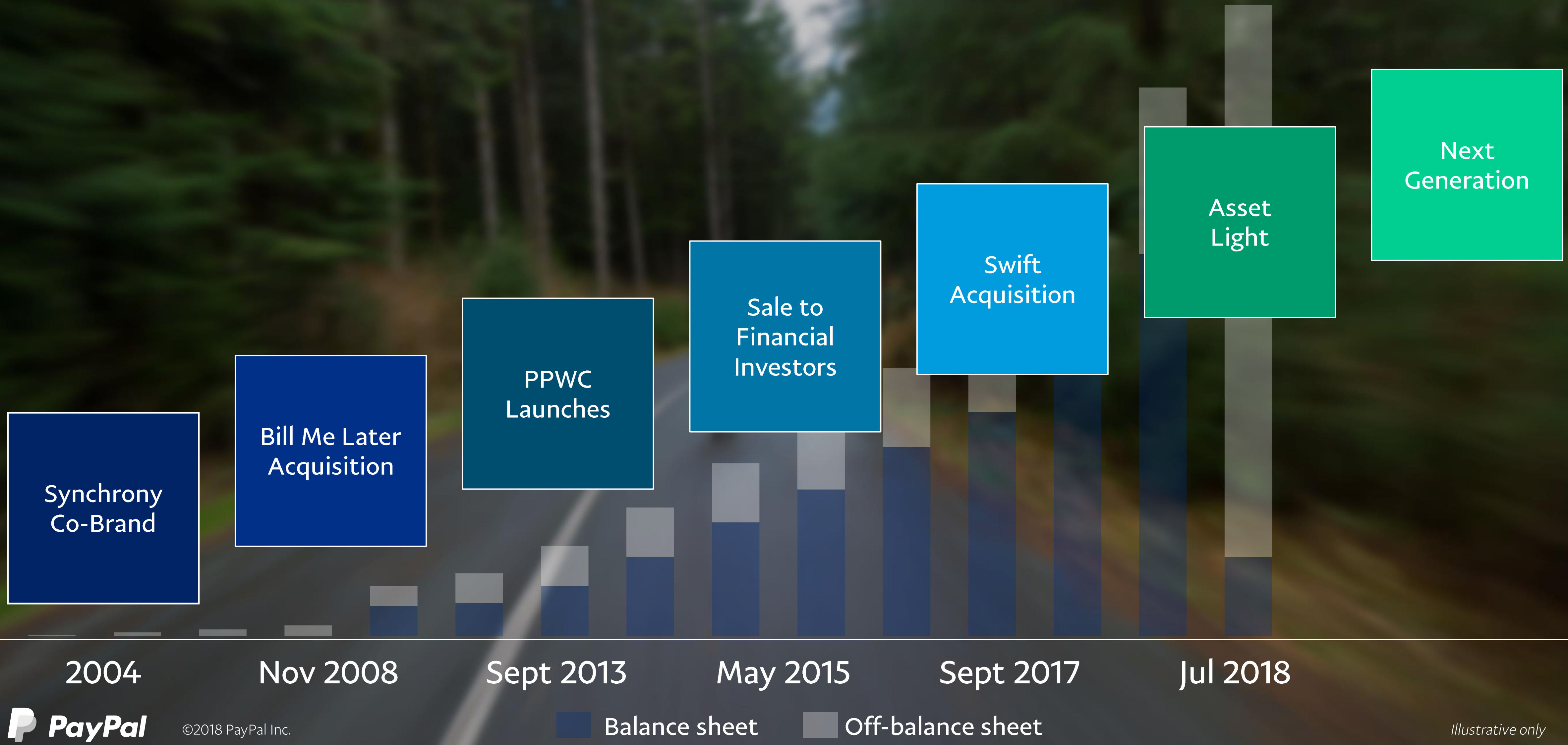
Our capital allocation was focused on growth, but also consumed by credit

Historically, 30 – 40% of our capital has been utilized to fund credit[1]



[1] Excludes use of European customer balance credit funding

Our evolving credit strategy



Illustrative only

PayPal is uniquely positioned to drive consolidation

Consolidation as an Accelerant

- Leverage PayPal's platform to strengthen ecosystem, expand TAM and widen competitive moat
- Acquire scale, skills or technologies more quickly or at lower cost than could be accomplished organically
- Enhance consumer engagement and adoption
- Grow influence and reach at the POS
- Extend reach of platform to payments adjacencies

Key Attributes

- Strong value creation
- Compelling strategic rationale
- Accretive to growth profile

iZettle allows PayPal to bring to market a best-in-class omnichannel offering

Synergy Opportunities

- Cross-sell iZettle's products to PayPal merchants in iZettle's existing 12 markets
- Selling combined omnichannel offering to new merchants in existing PayPal markets
- Accelerate iZettle's merchant acquisition in existing 12 markets

~$6 Billion 2018E Total Payment Volume (TPV)	**~60%** 2015-2017 revenue CAGR
~$165 Million 2018E gross revenue	**~410K** Merchants across 12 existing markets
~$130 Million 2018E net revenue[1]	**FY 2020** EBITDA profitability expected

[1] Net revenue is defined as gross revenue less interchange and card scheme fees. Net revenue is a non-IFSRS / non-GAAP metric used by iZettle management to measure revenue quality. iZettle reports to IFRS as adopted by the European Union

iZettle allows PayPal to bring to market a best-in-class omnichannel offering

Purchase Price:

$2.2B USD

Consideration:

100% cash

Anticipated closing:

Q3 '18

Expected EPS dilution[1]:

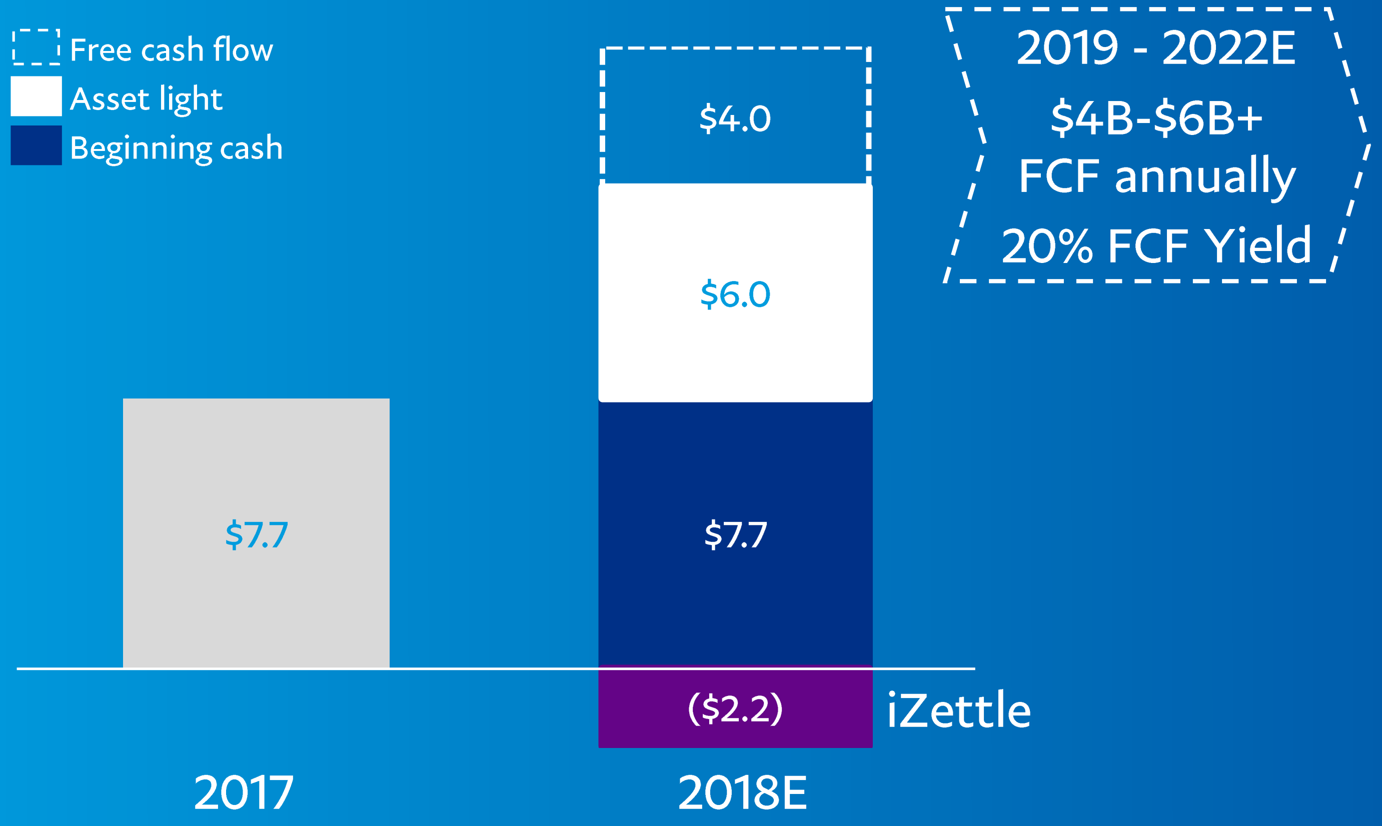
	2018E	2019E
Non-GAAP	~$0.01	~$0.06 - $0.08
GAAP	~$0.38 - $0.42	~$0.20 - $0.25

Closing subject to customary conditions, including regulatory approvals

[1]Based on management's preliminary estimates, factoring in assumptions that include but are not limited to the timing of the closing of the acquisition, estimates of amortization, iZettle's financial and operating results and the operation and management of iZettle after the acquisition. Assumes no change in tax rate or sharecount.

New capital allocation strategy focuses on growth and return to shareholders

Cash available to invest ($B)



Capital allocation priorities

- Maintain investment grade rating
- Balance investment with margin expansion
- Continue off balance sheet opportunities for credit
- M&A: targeting $1–3B per year
- Capital return: 40–50% of FCF

Note: Cash proceeds from the sale of the U.S. consumer credit receivables to Synchrony assumed to be approximately $6B

Medium-term guidance

FXN TPV Growth				
FXN Revenue Growth				
Non-GAAP Operating Margin				
Free Cash Flow Growth				

Medium-term guidance

	2016 Investor Day		
FXN TPV Growth	Mid-20%		
FXN Revenue Growth	~15%		
Non-GAAP Operating Margin	Stable to growing		
Free Cash Flow Growth	In-Line with Revenue Growth		

Medium-term guidance

	2016 Investor Day	2016 October Update
FXN TPV Growth	Mid-20%	Mid-20%
FXN Revenue Growth	~15%	16% -17%
Non-GAAP Operating Margin	Stable to growing	Stable to growing
Free Cash Flow Growth	In-Line with Revenue Growth	In-Line with Revenue Growth

Medium-term guidance

	~~2016 Investor Day~~	~~2016 October Update~~
FXN TPV Growth	~~Mid-20%~~	~~Mid-20%~~
FXN Revenue Growth	~~~15%~~	~~16%-17%~~
Non-GAAP Operating Margin	~~Stable to growing~~	~~Stable to growing~~
Free Cash Flow Growth	~~In-Line with Revenue Growth~~	~~In-Line with Revenue Growth~~

2018
Investor Day

3 – 5 year outlook

FXN revenue growth
17%-18% CAGR

Expanding non-GAAP
operating margins

Non-GAAP EPS growth
~20% CAGR

FCF Yield
20%+

Note: 3 – 5 Year outlook includes capital allocation strategy.
FCF yield is calculated as FCF as a % of revenue.

Supplemental Information

Reconciliation of GAAP net revenues to non-GAAP Net Revenues, Reconciliation of GAAP transaction and loan losses to non-GAAP transaction and loan losses, Reconciliation of GAAP transaction and loan losses rate to non-GAAP transaction and loan losses rate, Reconciliation of GAAP transaction margin to non-GAAP transaction margin

	Three Months Ended										Year Ended December 31,		
(In Millions/Unaudited)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	2017	2016	2015
TPV[1]	$ 132,364	$ 132,515	$ 115,224	$ 107,800	$ 100,639	$ 100,711	$ 88,895	$ 87,763	$ 82,559	$ 83,102	$ 456,179	$ 359,928	$ 288,038
GAAP Net revenues	$ 3,685	$ 3,744	$ 3,239	$ 3,136	$ 2,975	$ 2,981	$ 2,667	$ 2,650	$ 2,544	$ 2,556	$ 13,094	$ 10,842	$ 9,248
Other[2]	—	(39)	—	—	—	—	—	—	—	—	(39)	—	—
Non-GAAP Net revenues	$ 3,685	$ 3,705	$ 3,239	$ 3,136	$ 2,975	$ 2,981	$ 2,667	$ 2,650	$ 2,544	$ 2,556	$ 13,055	$ 10,842	$ 9,248
GAAP Transaction and loan losses	$ 305	$ 40	$ 363	$ 308	$ 300	$ 307	$ 271	$ 255	$ 255	$ 245	$ 1,011	$ 1,088	$ 809
Other[3]	—	283	—	—	—	—	—	—	—	—	283	—	—
Non-GAAP Transaction and loan Losses	$ 305	$ 323	$ 363	$ 308	$ 300	$ 307	$ 271	$ 255	$ 255	$ 245	$ 1,294	$ 1,088	$ 809
GAAP Transaction and loan losses rate (% of TPV)[1]	0.23 %	0.03 %	0.32 %	0.29 %	0.30 %	0.30 %	0.30 %	0.29 %	0.31 %	0.29 %	0.22 %	0.30 %	0.28 %
Effect of non-GAAP Adjustment	— %	0.21 %	— %	— %	— %	— %	— %	— %	— %	— %	0.06 %	— %	— %
Non-GAAP Transaction and loan losses rate (% of TPV)[1]	0.23 %	0.24 %	0.32 %	0.29 %	0.30 %	0.30 %	0.30 %	0.29 %	0.31 %	0.29 %	0.28 %	0.30 %	0.28 %
GAAP Transaction margin	57.1 %	65.1 %	54.8 %	56.3 %	56.7 %	57.7 %	58.7 %	59.8 %	60.4 %	61.1 %	58.5 %	59.1 %	63.0 %
Effect of non-GAAP adjustment	— %	(8.0)%	— %	— %	— %	— %	— %	— %	— %	— %	(2.3)%	— %	— %
Non-GAAP Transaction margin	57.1 %	57.1 %	54.8 %	56.3 %	56.7 %	57.7 %	58.7 %	59.8 %	60.4 %	61.1 %	56.2 %	59.1 %	63.0 %

Amounts in the table are rounded to the nearest million, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

[1] Prior period amounts were revised to reflect updated definitions of our metrics consistent with the 8-K filed on April 10, 2018.

[2] Elimination of allowance on interest receivable due to the designation of the U.S. Consumer Credit portfolio as held for sale.

[3] Elimination of allowance on loans receivable due to the designation of the U.S. Consumer Credit portfolio as held for sale.

PayPal

Reconciliation of GAAP operating expenses to non-GAAP operating expenses

(In millions)	Note	Three Months Ended March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	Year Ended December 31, 2017	2016	2015
GAAP operating expenses:														
Transaction expense		$ 1,275	$ 1,266	$ 1,102	$ 1,064	$ 987	$ 954	$ 830	$ 810	$ 752	$ 750	$ 4,419	$ 3,346	$ 2,610
Transaction and loan losses		305	40	363	308	300	307	271	255	255	245	1,011	1,088	809
Customer support and operations	(1)	351	366	346	335	317	328	325	318	296	299	1,364	1,267	1,110
Sales and marketing	(1)	285	328	278	284	238	253	233	250	233	255	1,128	969	937
Product development	(1)	258	267	240	232	214	215	215	209	195	208	953	834	792
General and administrative	(1)	339	315	293	282	265	275	261	261	231	225	1,155	1,028	873
Depreciation and amortization		185	227	194	201	183	189	184	176	175	164	805	724	608
Restructuring and other charges		153	92	—	—	40	—	—	—	—	(1)	132	—	48
Total operating expenses		$ 3,151	$ 2,901	$ 2,816	$ 2,706	$ 2,544	$ 2,521	$ 2,319	$ 2,279	$ 2,137	$ 2,145	$ 10,967	$ 9,256	$ 7,787
Non-GAAP operating expense adjustments:														
Transaction and loan losses	(h)	$ —	$ 283	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 283	$ —	$ —
Customer support and operations	(a)	$ (38)	$ (40)	$ (38)	$ (34)	$ (30)	$ (24)	$ (21)	$ (22)	$ (18)	$ (18)	$ (142)	$ (85)	$ (62)
	(e)	—	—	—	—	—	—	—	—	—	—	—	—	(3)
Sales and marketing	(a)	(44)	(43)	(36)	(33)	(28)	(25)	(21)	(22)	(16)	(10)	(140)	(84)	(52)
Product development	(a)	(64)	(72)	(64)	(59)	(45)	(37)	(34)	(35)	(33)	(35)	(240)	(139)	(132)
General and administrative	(a)	(59)	(63)	(54)	(51)	(42)	(39)	(31)	(33)	(27)	(26)	(210)	(130)	(94)
	(b)	(32)	(1)	(2)	(12)	(2)	—	(1)	(9)	(1)	—	(17)	(11)	(9)
	(e)	—	—	—	—	—	—	—	—	—	2	—	—	(12)
	(f)	—	—	—	—	—	—	—	—	—	(5)	—	—	(10)
	(i)	—	(5)	—	—	—	—	—	—	—	—	(5)	—	—
Depreciation and amortization	(a)	(4)	(4)	(3)	(3)	(2)	(2)	(2)	(1)	(1)	(1)	(12)	(6)	(7)
	(c)	(29)	(58)	(26)	(22)	(23)	(32)	(32)	(35)	(34)	(29)	(129)	(133)	(85)
	(g)	—	—	—	(15)	—	—	—	—	—	—	(15)	—	—
Restructuring and other charges	(d)	(25)	—	—	—	(40)	—	—	—	—	1	(40)	—	(48)
Total operating expenses		$ (295)	$ (3)	$ (223)	$ (229)	$ (212)	$ (159)	$ (142)	$ (157)	$ (130)	$ (121)	$ (667)	$ (588)	$ (514)
Non-GAAP operating expenses:														
Transaction expense		$ 1,275	$ 1,266	$ 1,102	$ 1,064	$ 987	$ 954	$ 830	$ 810	$ 752	$ 750	$ 4,419	$ 3,346	$ 2,610
Transaction and loan losses		305	323	363	308	300	307	271	255	255	245	1,294	1,088	809
Customer support and operations	(1)	313	326	308	301	287	304	304	296	278	281	1,222	1,182	1,045
Sales and marketing	(1)	241	285	242	251	210	228	212	228	217	245	988	885	885
Product development	(1)	194	195	176	173	169	178	181	174	162	173	713	695	660
General and administrative	(1)	248	246	237	219	221	236	229	219	203	196	923	887	748
Depreciation and amortization		152	165	165	161	158	155	150	140	140	134	649	585	516
Restructuring and other charges		128	92	—	—	—	—	—	—	—	—	92	—	—
Total operating expenses		$ 2,856	$ 2,898	$ 2,593	$ 2,477	$ 2,332	$ 2,362	$ 2,177	$ 2,122	$ 2,007	$ 2,024	$ 10,300	$ 8,668	$ 7,273

(1) Amounts have been reclassified to conform to the current presentation.

(a) Stock-based compensation expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization and impairment of acquired intangible assets

(d) Restructuring

(e) Separation

(f) Acquisition related transaction expense

(g) Impairment of investment in intellectual property fund

(h) Elimination of allowance on loans receivable due to the U.S. Consumer Credit portfolio designation as held for sale

(i) Fees associated with the sale of the U.S. Consumer Credit portfolio

PayPal

Reconciliation of non-GAAP operating expenses to non-GAAP pro forma operating expenses

(In Millions)	Note	Three Months Ended March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	Year Ended December 31, 2017	2016	2015
Non-GAAP operating expenses:														
Transaction expense		$ 1,275	$ 1,266	$ 1,102	$ 1,064	$ 987	$ 954	$ 830	$ 810	$ 752	$ 750	$ 4,419	$ 3,346	$ 2,610
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Restructuring and other charges		128	92	—	—	—	—	—	—	—	—	92	—	—
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Pro forma adjustments:														
Transaction and loan losses	(a)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 22
Customer support and operations	(a)(b)(c)	—	—	—	—	—	—	—	—	—	—	—	—	8
Sales and marketing	(d)	—	—	—	—	—	—	—	—	—	—	—	—	(25)
General and administrative	(a)	—	—	—	—	—	—	—	—	—	—	—	—	3
Depreciation and amortization	(e)	—	—	—	—	—	—	—	—	—	—	—	—	8
Total non-GAAP pro forma adjustments		$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 16
Non-GAAP pro forma operating expenses:														
Transaction expense		$ 1,275	$ 1,266	$ 1,102	$ 1,064	$ 987	$ 954	$ 830	$ 810	$ 752	$ 750	$ 4,419	$ 3,346	$ 2,610
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Depreciation and amortization		152	165	165	161	158	155	150	140	140	134	649	585	524
Restructuring and other charges		128	92	—	—	—	—	—	—	—	—	92	—	—
Total operating expenses		$ 2,856	$ 2,898	$ 2,593	$ 2,477	$ 2,332	$ 2,362	$ 2,177	$ 2,122	$ 2,007	$ 2,024	$ 10,300	$ 8,668	$ 7,289

(1) Amounts have been reclassified to conform to the current presentation.

(a) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs have been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(b) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(c) Reflects the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(d) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(e) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

Reconciliation of GAAP Operating Margin to Non- GAAP Operating Margin and Non-GAAP Pro Forma Operating Margin”

		Three Months Ended										Year Ended December 31,		
(In Millions, Except Percentages)	Note	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	2017	2016	2015
GAAP operating income		$ 534	$ 843	$ 423	$ 430	$ 431	$ 460	$ 348	$ 371	$ 407	$ 411	$ 2,127	$ 1,586	$ 1,461
Stock-based compensation expense and related employer payroll taxes		241	223	197	192	149	127	110	122	96	90	761	455	356
Acquisition related transaction expense		—	—	—	—	—	—	—	—	—	5	—	—	10
Separation		—	—	—	—	—	—	—	—	—	(2)	—	—	15
Restructuring		25	—	—	—	40	—	—	—	—	(1)	40	—	48
Amortization of acquired intangible assets		29	58	26	22	23	32	32	35	34	29	129	133	85
Other		—	(317)	—	15	—	—	—	—	—	—	(302)	—	—
Total non-GAAP operating income adjustments		295	(36)	223	229	212	159	142	157	130	121	628	588	514
Non-GAAP operating income		$ 829	$ 807	$ 646	$ 659	$ 643	$ 619	$ 490	$ 528	$ 537	$ 532	$ 2,755	$ 2,174	$ 1,975
Non-GAAP operating margin		22.5 %	21.8 %	19.9 %	21.0 %	21.6 %	20.8 %	18.4 %	19.9 %	21.1 %	20.8 %	21.1 %	20.1 %	21.4 %
Pro forma adjustments:														
Net revenues	(a)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (7)
Transaction and loan losses	(b)	—	—	—	—	—	—	—	—	—	—	—	—	(22)
Customer support and operations	(b)(c)(d)	—	—	—	—	—	—	—	—	—	—	—	—	(8)
Sales and marketing	(e)	—	—	—	—	—	—	—	—	—	—	—	—	25
General and administrative	(b)	—	—	—	—	—	—	—	—	—	—	—	—	(3)
Depreciation and amortization	(f)	—	—	—	—	—	—	—	—	—	—	—	—	(8)
Total non-GAAP pro forma operating income adjustments		—	—	—	—	—	—	—	—	—	—	—	—	(23)
Non-GAAP pro forma operating income		$ 829	$ 807	$ 646	$ 659	$ 643	$ 619	$ 490	$ 528	$ 537	$ 532	$ 2,755	$ 2,174	$ 1,952
Non-GAAP pro forma operating margin		22.5 %	21.8 %	19.9 %	21.0 %	21.6 %	20.8 %	18.4 %	19.9 %	21.1 %	20.8 %	21.1 %	20.1 %	21.1 %

(a) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(b) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs have been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(c) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(d) Reflects the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(e) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(f) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

Reconciliation of GAAP net income to non-GAAP net income and non-GAAP pro forma net income; Reconciliation of GAAP EPS to non-GAAP EPS and non-GAAP pro forma EPS; Reconciliation of GAAP effective tax rate to non-GAAP effective tax rate and non-GAAP pro forma effective tax rate

	Three Months Ended										Year Ended December 31,		
(In Millions, Except Percentages and Per Share Amounts)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	2017	2016	2015
GAAP income before income taxes	$ 548	$ 864	$ 451	$ 447	$ 438	$ 469	$ 360	$ 380	$ 422	$ 418	$ 2,200	$ 1,631	$ 1,488
GAAP income tax expense	37	244	71	36	54	79	37	57	57	51	405	230	260
GAAP net income	511	620	380	411	384	390	323	323	365	367	1,795	1,401	1,228
Non-GAAP adjustments to net income:													
Non-GAAP operating income adjustments (see table above)	295	(36)	223	229	212	159	142	157	130	121	628	588	514
Separation (Other income (expense), net)	—	—	—	—	—	—	—	—	—	—	—	—	(12)
Other certain significant gains, losses, or charges	3	201	23	—	—	—	—	—	—	—	224	—	—
Tax effect of non-GAAP adjustments	(117)	(115)	(66)	(86)	(62)	(37)	(40)	(44)	(43)	(45)	(329)	(164)	(142)
Non-GAAP net income	$ 692	$ 670	$ 560	$ 554	$ 534	$ 512	$ 425	$ 436	$ 452	$ 443	$ 2,318	$ 1,825	$ 1,588
Non-GAAP pro forma adjustments to net income:													
Non-GAAP pro forma operating income adjustments (see table above)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (23)
Tax effect of non-GAAP pro forma adjustments	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 3
Non-GAAP pro forma net income	$ 692	$ 670	$ 560	$ 554	$ 534	$ 512	$ 425	$ 436	$ 452	$ 443	$ 2,318	$ 1,825	$ 1,568
Shares used in diluted share calculation	1,217	1,228	1,223	1,215	1,216	1,216	1,214	1,215	1,225	1,230	1,221	1,218	1,229
Net income per diluted share:													
GAAP	$ 0.42	$ 0.50	$ 0.31	$ 0.34	$ 0.32	$ 0.32	$ 0.27	$ 0.27	$ 0.30	$ 0.30	$ 1.47	$ 1.15	$ 1.00
Non-GAAP	$ 0.57	$ 0.55	$ 0.46	$ 0.46	$ 0.44	$ 0.42	$ 0.35	$ 0.36	$ 0.37	$ 0.36	$ 1.90	$ 1.50	$ 1.29
Non-GAAP pro forma	$ 0.57	$ 0.55	$ 0.46	$ 0.46	$ 0.44	$ 0.42	$ 0.35	$ 0.36	$ 0.37	$ 0.36	$ 1.90	$ 1.50	$ 1.28
GAAP effective tax rate	7 %	28 %	16 %	8 %	12 %	17 %	10 %	15 %	14 %	12 %	18 %	14 %	17 %
Tax effect of non-GAAP adjustments to net income	11 %	(9)%	1 %	10 %	6 %	1 %	5 %	4 %	4 %	6 %	— %	4 %	3 %
Non-GAAP effective tax rate	18 %	19 %	17 %	18 %	18 %	18 %	15 %	19 %	18 %	18 %	18 %	18 %	20 %
Tax effect of non-GAAP pro forma adjustments to net income	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
Non-GAAP pro forma effective tax rate	18 %	19 %	17 %	18 %	18 %	18 %	15 %	19 %	18 %	18 %	18 %	18 %	20 %

Calculation of Free Cash Flow

(In Millions/Unaudited)	Three Months Ended											Year Ended December 31,		
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	2017	2016	2015
Net cash provided by operating activities	$ (349)	$ (147)	$ 1,006	$ 921	$ 751	$ 923	$ 801	$ 696	$ 738	$ 728	$ 652	$ 2,531	$ 3,158	$ 2,546
Less: Purchases of property and equipment, net	(178)	(180)	(165)	(174)	(148)	(152)	(183)	(201)	(133)	(164)	(133)	(667)	(669)	(722)
Free cash flow	$ (527)	$ (327)	$ 841	$ 747	$ 603	$ 771	$ 618	$ 495	$ 605	$ 564	$ 519	$ 1,864	$ 2,489	$ 1,824
Impact of held for sale accounting presentation on cash flow from operating activities	1,260	1,299	—	—	—	—	—	—	—	—	—	1,299	—	—
Adjusted free cash flow	$ 733	$ 972	$ 841	$ 747	$ 603	$ 771	$ 618	$ 495	$ 605	$ 564	$ 519	$ 3,163	$ 2,489	$ 1,824

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2018

May 2018