Capex, useful lives and free cash flow

Amazon letters: 2025 · Difficulty: Intro

> *"However, these capex investments fund assets with many-year useful lives (30+ years for datacenters; 5-6 years for chips, servers, and networking gear)." (2025)*

1. A company pays $30 billion in cash for datacenters with a 30-year useful life (straight-line, no salvage value). How much depreciation expense does it record in the first full year ($ billions)? _____

2. In the year it pays for those datacenters, by how much does the $30 billion purchase reduce free cash flow?

   A. $15 billion, half the cost

   B. $30 billion, the full purchase

   C. $1 billion, the depreciation

   D. $0, because it is an asset

Source: Andrew R. Jassy, Letters to Amazon.com Shareholders: 2025 (ir.aboutamazon.com). Quotation © Amazon.com, Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.