



Q2 2011

**Quarterly Earnings
Summary**

Second Quarter 2011 Highlights

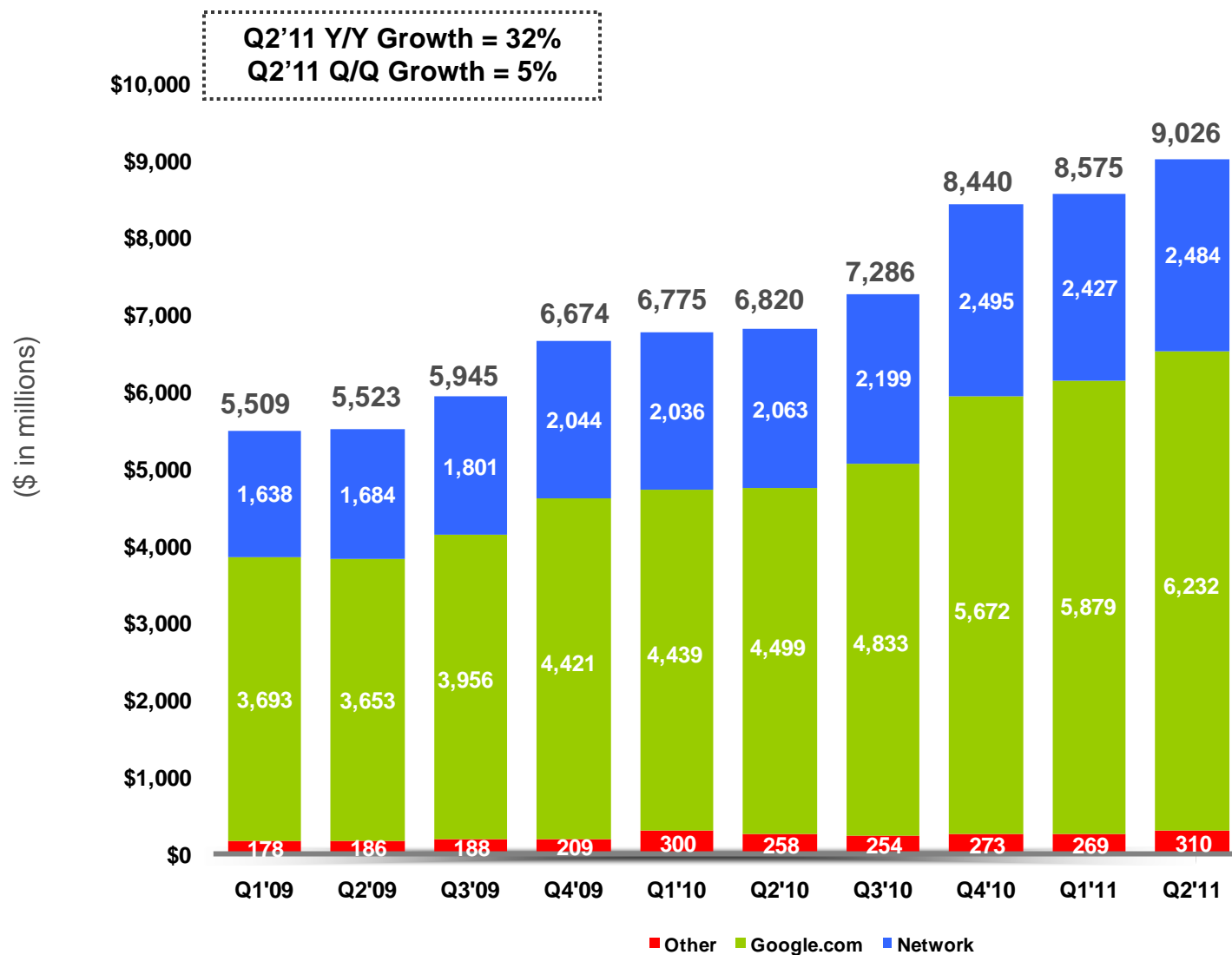
- **Revenue growth of 32% Y/Y and 5% Q/Q**

- Google properties revenue increased 39% Y/Y and 6% Q/Q
- Network revenues increased 20% Y/Y and 2% Q/Q
- International revenues were \$4.9 billion

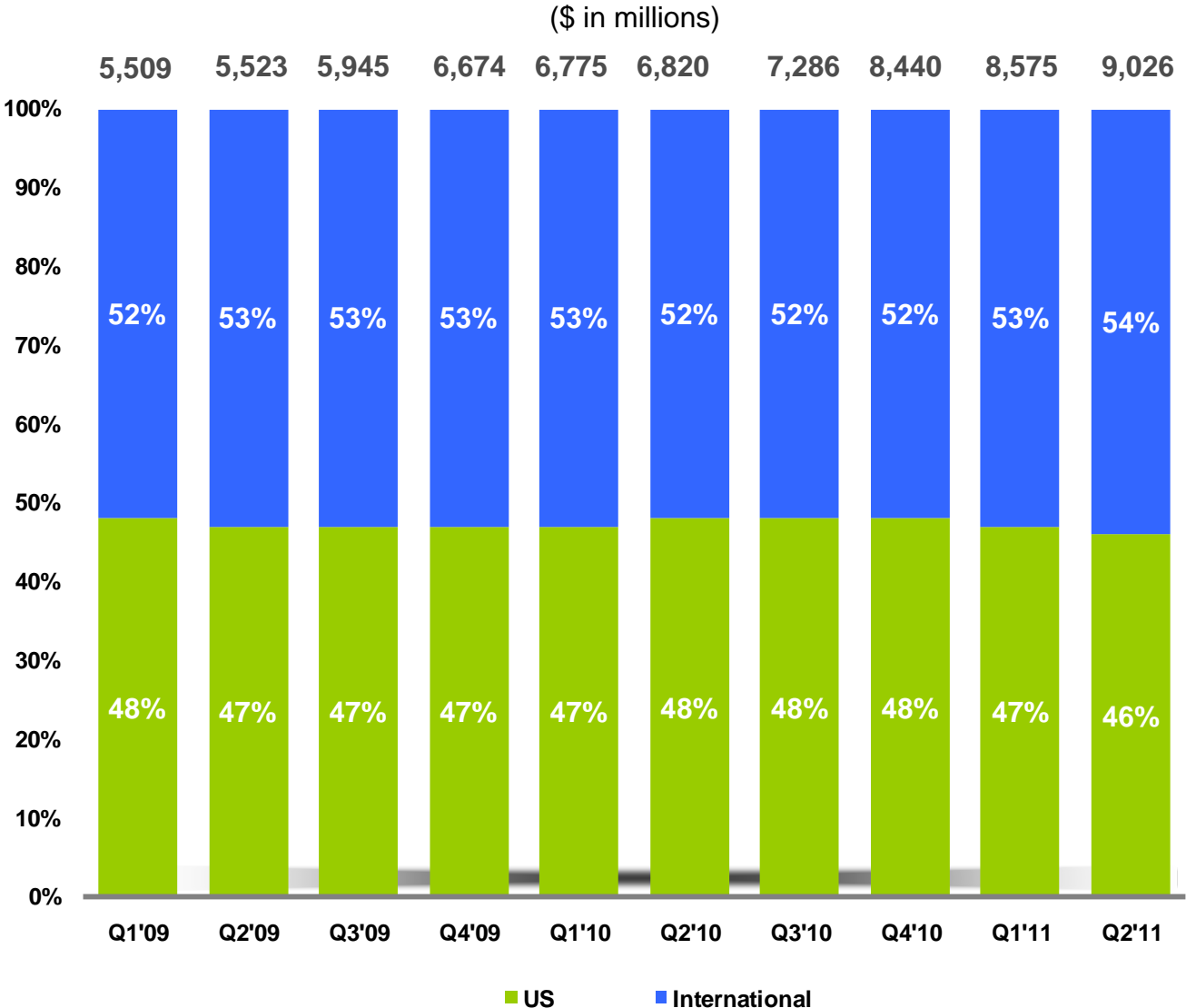
- **Operational Highlights**

- Strong financial metrics: revenue growth, profitability, cash flow
- Continuing to invest in three major areas of focus:
 - Core ads business: search quality and monetization
 - Businesses demonstrating high consumer success: YouTube, Android, Chrome
 - New businesses where we're investing to drive adoption and innovation: Social, Commerce, Local

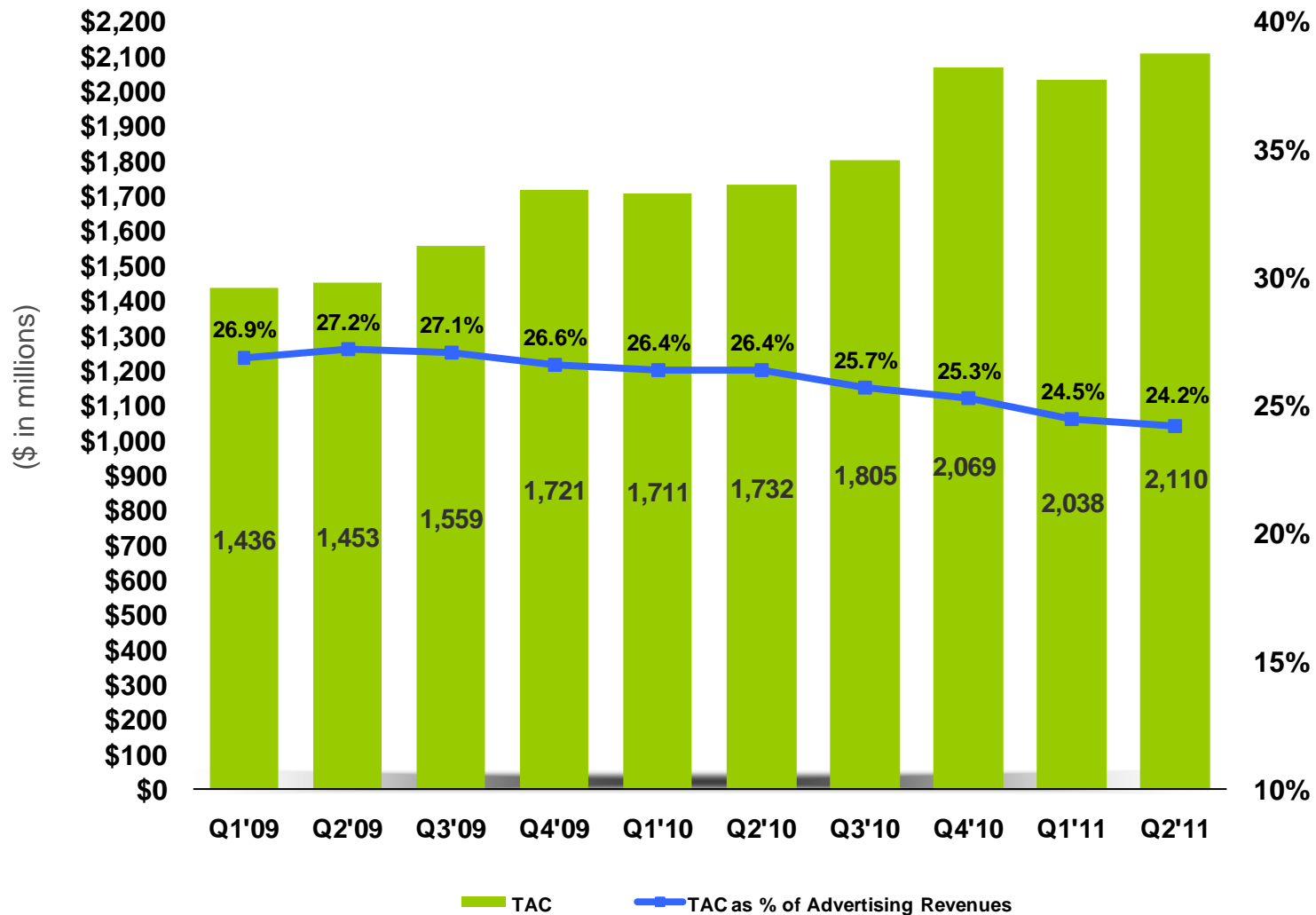
Quarterly Revenues



U.S. vs. International Revenues



Traffic Acquisition Costs



Costs and Expenses

| GAAP | | | |
|--|--------------|--------------|--------------|
| (\$ in millions) | Q2'10 | Q1'11 | Q2'11 |
| Cost of Revenues | \$2,467 | \$2,936 | \$3,172 |
| <i>Percent of revenues</i> | 36% | 34% | 35% |
| Research & Development | \$898 | \$1,226 | \$1,234 |
| <i>Percent of revenues</i> | 13% | 14% | 14% |
| Sales & Marketing | \$629 | \$1,026 | \$1,091 |
| <i>Percent of revenues</i> | 9% | 12% | 12% |
| General & Administrative | \$461 | \$591 | \$648 |
| <i>Percent of revenues</i> | 7% | 7% | 7% |
| Charge Related to Potential Resolution of Department of Justice Investigation | \$0 | \$500 | \$0 |
| <i>Percent of revenues</i> | 0% | 6% | 0% |
| Total Costs & Expenses | \$4,455 | \$6,279 | \$6,145 |
| <i>Percent of revenues</i> | 65% | 73% | 68% |
| Non-GAAP | | | |
| (\$ in millions) | Q2'10 | Q1'11 | Q2'11 |
| Cost of Revenues | \$2,459 | \$2,887 | \$3,121 |
| <i>Percent of revenues</i> | 36% | 34% | 35% |
| Research & Development | \$696 | \$989 | \$987 |
| <i>Percent of revenues</i> | 10% | 12% | 11% |
| Sales & Marketing | \$573 | \$948 | \$1,017 |
| <i>Percent of revenues</i> | 8% | 11% | 11% |
| General & Administrative | \$418 | \$523 | \$585 |
| <i>Percent of revenues</i> | 7% | 6% | 6% |
| Charge Related to Potential Resolution of Department of Justice Investigation | \$0 | \$0 | \$0 |
| <i>Percent of revenues</i> | 0% | 0% | 0% |
| Total Costs & Expenses | \$4,146 | \$5,347 | \$5,710 |
| <i>Percent of revenues</i> | 61% | 62% | 63% |

Note: Please refer to supporting Table 1 for reconciliations of non-GAAP costs and expenses to GAAP costs and expenses



Profitability

| GAAP (\$ in millions except per share amounts) | Q2'10 | Q1'11 | Q2'11 |
|--|--------------|--------------|--------------|
| Income from Operations | \$ 2,365 | \$ 2,296 | \$ 2,881 |
| <i>Operating Margin</i> | 35% | 27% | 32% |
| Net Income | \$ 1,840 | \$ 1,798 | \$ 2,505 |
| EPS (diluted) | \$ 5.71 | \$ 5.51 | \$ 7.68 |

| Non-GAAP (\$ in millions except per share amounts) | Q2'10 | Q1'11 | Q2'11 |
|--|--------------|--------------|--------------|
| Income from Operations | \$ 2,674 | \$ 3,228 | \$ 3,316 |
| <i>Operating Margin</i> | 39% | 38% | 37% |
| Net Income | \$ 2,079 | \$ 2,638 | \$ 2,849 |
| EPS (diluted) | \$ 6.45 | \$ 8.08 | \$ 8.74 |

Note: Please refer to supporting Table 2 for reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures

Free Cash Flow

| (\$ in millions) | Q2'10 | Q1'11 | Q2'11 |
|--|--------------|--------------|--------------|
| Net cash provided by operating activities | \$2,085 | \$3,172 | \$3,519 |
| Less purchases of property and equipment | (\$476) | (\$890) | (\$917) |
| Free cash flow (non-GAAP) | \$1,609 | \$2,282 | \$2,602 |

Overview of Q2 2011 OI&E and FX

In Interest and Other Income, Net, we recognized net income of \$204M for Q2

- In Q2, we recognized \$212M of interest income earned on our investments and \$75M in realized gains.
- We expensed \$58M related to our FX cash flow hedging program.
- Excluding gains related to our FX cash flow hedging program, had foreign exchange rates remained constant from Q1 2011 through Q2 2011, our revenue in Q2 2011 would have been \$167M lower. Excluding gains related to our FX cash flow hedging program, had foreign exchange rates remained constant from Q2 2010 through Q2 2011, our revenue in Q2 2011 would have been \$417M lower.
- In addition, our FX cash flow hedging program allowed us to recognize a benefit of approximately \$4M to international revenue this quarter.

Revenues by Geography

| (\$ in millions) | Q2'10 | Q1'11 | Q2'11 |
|--------------------------|--------------|--------------|--------------|
| United States | \$3,288 | \$4,005 | \$4,155 |
| United Kingdom | \$770 | \$969 | \$976 |
| Rest of the world | \$2,762 | \$3,601 | \$3,895 |
| Total Revenues | \$6,820 | \$8,575 | \$9,026 |

International Revenues Excluding Hedging and FX Impact (Y/Y)

| (\$ in millions) | Q2'10 | Q2'11 |
|--|-------|-------|
| UK revenues (GAAP) | \$770 | \$976 |
| <i>exclude:</i> | | |
| a) f/x impact on Q2'11 revenues using Q2'10 rates (gains)/losses | n/a | (81) |
| b) hedging gains | (19) | - |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$751 | \$895 |
| Y/Y % (Non-GAAP) | | 19% |

| (\$ in millions) | Q2'10 | Q2'11 |
|--|---------|---------|
| ROW revenues (GAAP) | \$2,762 | \$3,895 |
| <i>exclude:</i> | | |
| a) f/x impact on Q2'11 revenues using Q2'10 rates (gains)/losses | n/a | (336) |
| b) hedging gains | (60) | (4) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$2,702 | \$3,555 |
| Y/Y % (Non-GAAP) | | 32% |

| (\$ in millions) | Q1'10 | Q1'11 |
|--|-------|-------|
| UK revenues (GAAP) | \$842 | \$969 |
| <i>exclude:</i> | | |
| a) f/x impact on Q1'11 revenues using Q1'10 rates (gains)/losses | n/a | 5 |
| b) hedging gains | (10) | (4) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$832 | \$970 |
| Y/Y % (Non-GAAP) | | 17% |

| (\$ in millions) | Q1'10 | Q1'11 |
|--|---------|---------|
| ROW revenues (GAAP) | \$2,737 | \$3,601 |
| <i>exclude:</i> | | |
| a) f/x impact on Q1'11 revenues using Q1'10 rates (gains)/losses | n/a | (28) |
| b) hedging gains | - | (10) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$2,737 | \$3,563 |
| Y/Y % (Non-GAAP) | | 30% |

International Revenues Excluding Hedging and FX Impact (Q/Q)

| (\$ in millions) | Q1'11 | Q2'11 |
|--|-------|-------|
| UK revenues (GAAP) | \$969 | \$976 |
| <i>exclude:</i> | | |
| a) f/x impact on Q2'11 revenues using Q1'11 rates (gains)/losses | n/a | (29) |
| b) hedging gains | (4) | - |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$965 | \$947 |
| Q/Q % (Non-GAAP) | | -2% |

| (\$ in millions) | Q1'11 | Q2'11 |
|--|---------|---------|
| ROW revenues (GAAP) | \$3,601 | \$3,895 |
| <i>exclude:</i> | | |
| a) f/x impact on Q2'11 revenues using Q1'11 rates (gains)/losses | n/a | (138) |
| b) hedging gains | (10) | (4) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$3,591 | \$3,753 |
| Q/Q % (Non-GAAP) | | 5% |

| (\$ in millions) | Q4'10 | Q1'11 |
|--|-------|-------|
| UK revenues (GAAP) | \$878 | \$969 |
| <i>exclude:</i> | | |
| a) f/x impact on Q1'11 revenues using Q4'10 rates (gains)/losses | n/a | 1 |
| b) hedging gains | (2) | (4) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$876 | \$966 |
| Q/Q % (Non-GAAP) | | 10% |

| (\$ in millions) | Q4'10 | Q1'11 |
|--|---------|---------|
| ROW revenues (GAAP) | \$3,507 | \$3,601 |
| <i>exclude:</i> | | |
| a) f/x impact on Q1'11 revenues using Q4'10 rates (gains)/losses | n/a | (20) |
| b) hedging gains | (23) | (10) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$3,484 | \$3,571 |
| Q/Q % (Non-GAAP) | | 2% |

Table 1 - Reconciliations of non-GAAP costs and expenses to GAAP costs and expenses

| (\$ in millions) | Q2'10 | As a % of Revenues (1) | Q1'11 | As a % of Revenues (1) | Q2'11 | As a % of Revenues (1) |
|--|----------|------------------------|----------|------------------------|----------|------------------------|
| Cost of revenues (GAAP) | \$ 2,467 | 36% | \$ 2,936 | 34% | \$ 3,172 | 35% |
| Less: Stock-based compensation expense | (8) | | (49) | | (51) | |
| Cost of revenues (non-GAAP) | \$ 2,459 | 36% | \$ 2,887 | 34% | \$ 3,121 | 35% |
| Research and development (GAAP) | \$ 898 | 13% | \$ 1,226 | 14% | \$ 1,234 | 14% |
| Less: Stock-based compensation expense | (202) | | (237) | | (247) | |
| Research and development (non-GAAP) | \$ 696 | 10% | \$ 989 | 12% | \$ 987 | 11% |
| Sales and marketing (GAAP) | \$ 629 | 9% | \$ 1,026 | 12% | \$ 1,091 | 12% |
| Less: Stock-based compensation expense | (56) | | (78) | | (74) | |
| Sales and marketing (non-GAAP) | \$ 573 | 8% | \$ 948 | 11% | \$ 1,017 | 11% |
| General and administrative (GAAP) | \$ 461 | 7% | \$ 591 | 7% | \$ 648 | 7% |
| Less: Stock-based compensation expense | (43) | | (68) | | (63) | |
| General and administrative (non-GAAP) | \$ 418 | 7% | \$ 523 | 6% | \$ 585 | 6% |
| Charge related to potential resolution of Department of Justice investigation (GAAP) | \$ - | - | \$ 500 | 6% | \$ - | - |
| Less: Charge related to potential resolution of Department of Justice investigation | - | | (500) | | - | |
| Charge related to potential resolution of Department of Justice investigation (non-GAAP) | \$ - | - | \$ - | 0% | \$ - | - |
| Total costs and expenses (GAAP) | \$ 4,455 | 65% | \$ 6,279 | 73% | \$ 6,145 | 68% |
| Less: Stock-based compensation expense and charge related to potential resolution of Department of Justice investigation | (309) | | (932) | | (435) | |
| Total costs and expenses (non-GAAP) | \$ 4,146 | 61% | \$ 5,347 | 62% | \$ 5,710 | 63% |

(1) Percentages based on revenues of \$6,820 million in Q2'10, \$8,575 million in Q1'11 and \$9,026 million in Q2'11.

Table 2 - Reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures

| (\$ in millions except per share amounts) | Q2'10 | Operating Margin (1) | Q1'11 | Operating Margin (1) | Q2'11 | Operating Margin (1) |
|--|----------|----------------------|----------|----------------------|----------|----------------------|
| Income from operations (GAAP) | \$ 2,365 | 35% | \$ 2,296 | 27% | \$ 2,881 | 32% |
| Add: Stock-based compensation expense | 309 | | 432 | | 435 | |
| Add: Charge related to potential resolution of Department of Justice investigation | - | | 500 | | - | |
| Income from operations (non-GAAP) | \$ 2,674 | 39% | \$ 3,228 | 38% | \$ 3,316 | 37% |
| Net income (GAAP) | \$ 1,840 | | \$ 1,798 | | \$ 2,505 | |
| Add: Stock-based compensation expense (net of tax) | 239 | | 340 | | 344 | |
| Add: Charge related to potential resolution of Department of Justice investigation | - | | 500 | | - | |
| Net income (non-GAAP) | \$ 2,079 | | \$ 2,638 | | \$ 2,849 | |
| Net income per share - diluted (GAAP) | \$ 5.71 | | \$ 5.51 | | \$ 7.68 | |
| Net income per share - diluted (non-GAAP) | \$ 6.45 | | \$ 8.08 | | \$ 8.74 | |
| Shares used in per share calculation - diluted | 322 | | 326 | | 326 | |

(1) Percentages based on revenues of \$6,820 million in Q2'10, \$8,575 million in Q1'11 and \$9,026 million in Q2'11.



Q2 2011

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Summary**