



Q4 2013

Quarterly Earnings Summary

Q4 2013 Highlights

Financial Highlights:

Consolidated revenues growth of 17% Y/Y and 13% Q/Q.

Consolidated revenues were \$16.86 billion.

- Google segment revenues were \$15.72 billion
 - Google properties segment revenues increased 22% Y/Y and 12% Q/Q
 - Network segment revenues increased 3% Y/Y and 12% Q/Q
 - Other revenues increased 99% Y/Y and 34% Q/Q
- Motorola Mobile segment revenues were \$1.24 billion.
- Consolidated international revenues were \$9.45 billion.

Operational Highlights:

Strong financial metrics: revenue growth and cash flow.

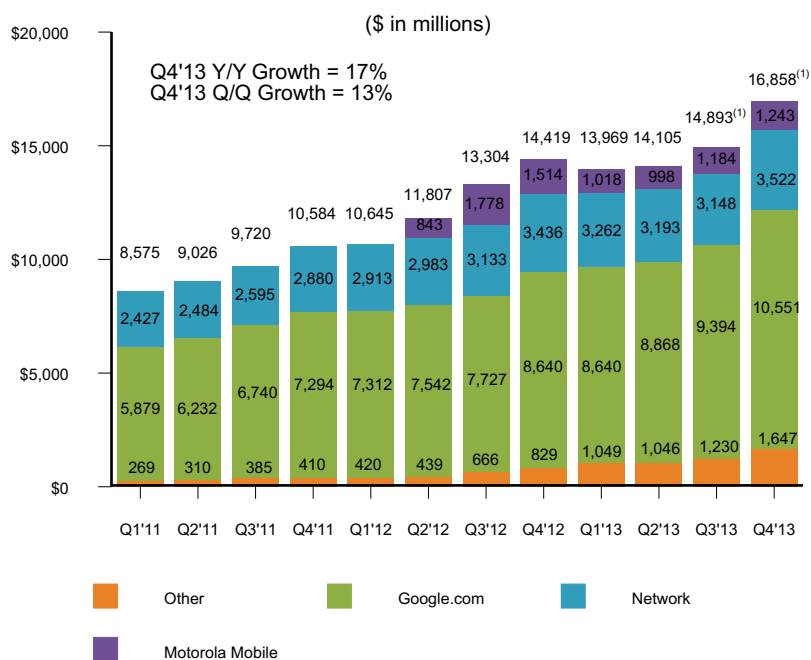
Continuing to invest in three major areas of focus:

- Core ads: Search and Display advertising
- Businesses demonstrating high consumer success: YouTube, Android/Play, and Chrome
- New businesses where we are investing to drive adoption and innovation: Social, Commerce, and Enterprise

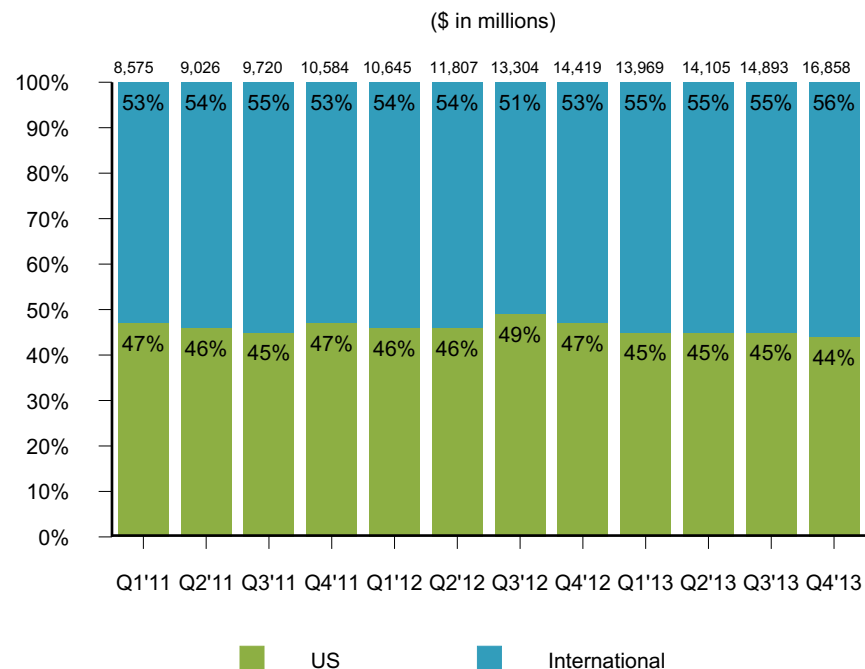
Our infrastructure continues to be a key strategic area of investment.

Consolidated Quarterly Revenues

Consolidated Revenues by Revenue Source

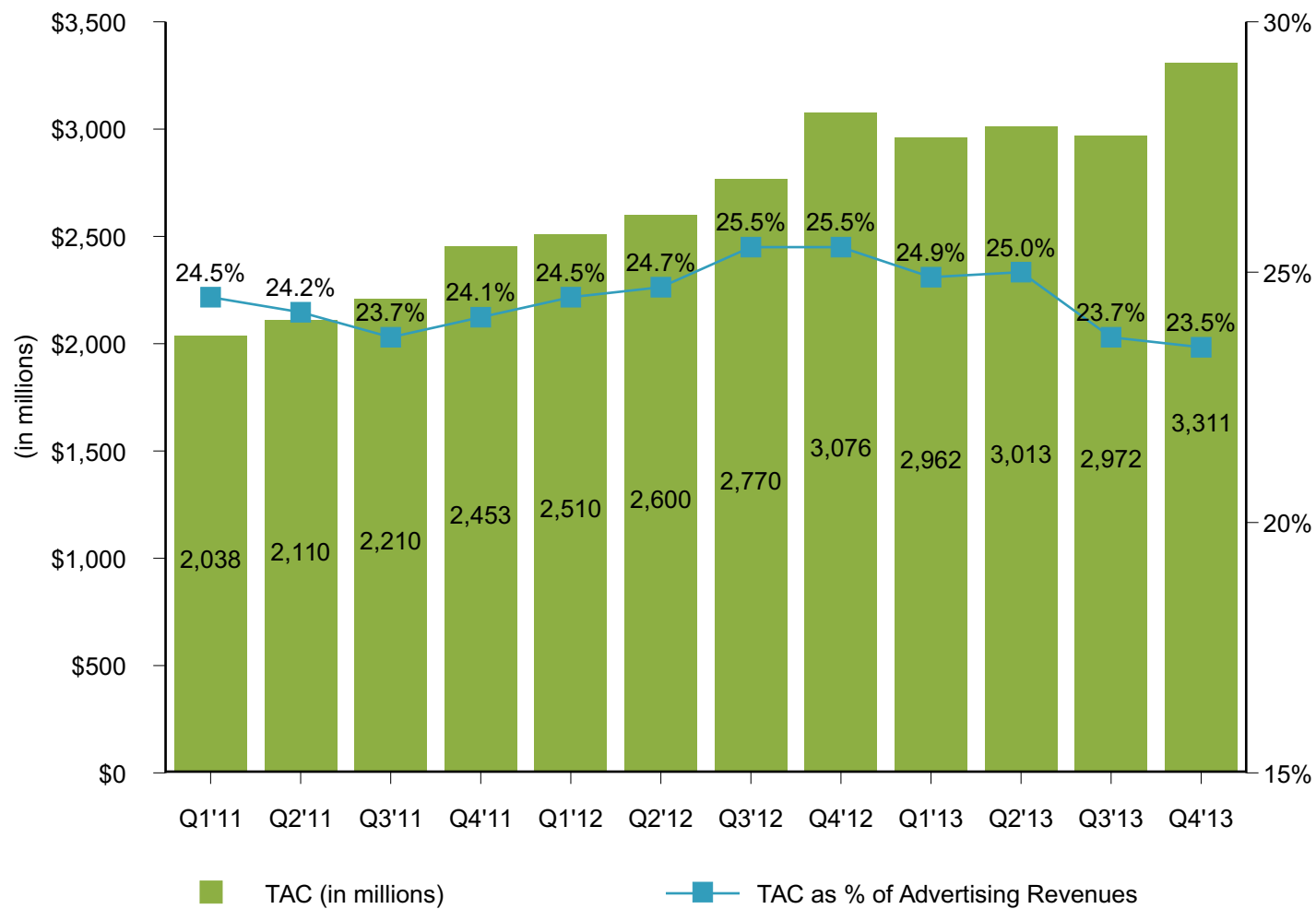


U.S. vs. International



⁽¹⁾ Please note, starting from Q3'13 because of the eliminations, the sum of the segment revenues will not equal the consolidated revenues unless the eliminations are taken into account.

Traffic Acquisition Costs



Consolidated Costs and Expenses

| GAAP | Q4 2012 | | Q3 2013 | | Q4 2013 | |
|-----------------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| | \$ in millions | As % of revenues | \$ in millions | As % of revenues | \$ in millions | As % of revenues |
| Cost of Revenues | \$6,213 | 43% | \$6,413 | 43% | \$7,438 | 44% |
| Research & Development | \$1,935 | 13% | \$2,017 | 14% | \$2,111 | 13% |
| Sales & Marketing | \$1,751 | 12% | \$1,806 | 12% | \$2,126 | 13% |
| General & Administrative | \$1,126 | 8% | \$1,213 | 8% | \$1,261 | 7% |
| Total Costs & Expenses | \$11,025 | 76% | \$11,449 | 77% | \$12,936 | 77% |

| Non-GAAP | Q4 2012 | | Q3 2013 | | Q4 2013 | |
|-----------------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| | \$ in millions | As % of revenues | \$ in millions | As % of revenues | \$ in millions | As % of revenues |
| Cost of Revenues | \$6,042 | 42% | \$6,276 | 42% | \$7,269 | 43% |
| Research & Development | \$1,487 | 10% | \$1,558 | 11% | \$1,642 | 10% |
| Sales & Marketing | \$1,611 | 11% | \$1,643 | 11% | \$1,970 | 12% |
| General & Administrative | \$1,007 | 7% | \$1,074 | 7% | \$1,138 | 6% |
| Total Costs & Expenses | \$10,147 | 70% | \$10,551 | 71% | \$12,019 | 71% |

Please refer to Table 1 for reconciliations of consolidated GAAP to non-GAAP costs and expenses.

Profitability

Consolidated

| GAAP (\$ in millions) | Q4 2012 | Q3 2013 | Q4 2013 |
|--|----------------|----------------|----------------|
| Income from Operations | \$3,394 | \$3,444 | \$3,922 |
| <i>Operating margin</i> | 24% | 23% | 23% |
| Net Income from continuing operations | \$2,907 | \$2,955 | \$3,381 |
| Net Income (loss) from discontinued operations | \$(21) | \$15 | \$(5) |
| Net Income | \$2,886 | \$2,970 | \$3,376 |
| EPS (Diluted) - continuing operations | \$8.68 | \$8.71 | \$9.91 |
| EPS (Diluted) - discontinued operations | \$(0.06) | \$0.04 | \$(0.01) |
| EPS (Diluted) | \$8.62 | \$8.75 | \$9.90 |

| Non-GAAP (\$ in millions) | Q4 2012 | Q3 2013 | Q4 2013 |
|-------------------------------|----------------|----------------|----------------|
| Income from Operations | \$4,272 | \$4,342 | \$4,839 |
| <i>Operating margin</i> | 30% | 29% | 29% |
| Net Income | \$3,568 | \$3,643 | \$4,096 |
| EPS (Diluted) | \$10.65 | \$10.74 | \$12.01 |

Please refer to Table 2 for reconciliations of non-GAAP consolidated results of operations measures to the nearest comparable GAAP measures.

Segment Profitability

Google Segment

| (\$ in millions) | Q4 2012 | Q3 2013 | Q4 2013 |
|---|----------------|----------------|----------------|
| Income from Operations (Segment) | \$4,424 | \$4,635 | \$5,315 |
| Operating margin ⁽¹⁾ | 34% | 34% | 34% |

Motorola Mobile Segment

| (\$ in millions) | Q4 2012 | Q3 2013 | Q4 2013 |
|---------------------------------------|----------------|----------------|----------------|
| Loss from Operations (Segment) | \$(152) | \$(248) | \$(384) |
| Operating margin ⁽²⁾ | -10% | -21% | -31% |

⁽¹⁾ Percentages based on Google segment revenues of \$12,905 million in Q4 2012, \$13,772 million in Q3 2013 and \$15,720 million in Q4 2013.

⁽²⁾ Percentages based on Motorola Mobile segment revenues of \$1,514 million in Q4 2012, \$1,184 million in Q3 2013 and \$1,243 million in Q4 2013.

Consolidated Free Cash Flow

| Non-GAAP (\$ in millions) | Q4 2012 ⁽¹⁾ | Q3 2013 | Q4 2013 |
|---|------------------------|----------------|----------------|
| Net cash provided by operating activities | \$4,669 | \$5,083 | \$5,238 |
| Less: Purchases of property and equipment | \$(1,020) | \$(2,289) | \$(2,255) |
| Free Cash Flow | \$3,649 | \$2,794 | \$2,983 |

⁽¹⁾ Including Motorola Home.

Overview of Q4 2013 OI&E and FX

- In Q4, we recognized \$125M of Interest and Other Income, net.
- In Q4, we recognized \$215M of interest income earned on our investments, \$23M in net realized gains, and \$21M of interest expense on our long-term debt.
- We recognized \$108M of foreign exchange loss, of which \$56M related to the cost of our FX cash flow hedging program.
- Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the third quarter of 2013 through the fourth quarter of 2013, our Google segment revenues in the fourth quarter of 2013 would have been \$156M lower. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the fourth quarter of 2012 through the fourth quarter of 2013, our Google segment revenues in the fourth quarter of 2013 would have been \$141M higher.
- Our FX cash flow hedging program allowed us to recognize a benefit of approximately \$3M to Google international revenue this quarter.

Google Segment - Revenues by Geography

| <i>(\$ in millions)</i> | Q4 2012 | Q3 2013 | Q4 2013 |
|-------------------------|-----------------|-----------------|-----------------|
| United States | \$5,992 | \$6,098 | \$6,948 |
| United Kingdom | 1,305 | 1,389 | 1,503 |
| Rest of the world | 5,608 | 6,285 | 7,269 |
| Total Revenues | \$12,905 | \$13,772 | \$15,720 |

Google Segment - International Revenues excluding Hedging and FX Impact (Y/Y)

| (\$ in millions) | Q4 2012 | Q4 2013 |
|---|----------------|----------------|
| UK revenues (GAAP) | \$1,305 | \$1,503 |
| exclude: | | |
| a) f/x impact on Q4'13 revenues using Q4'12 rates | n/a | (5) |
| b) hedging gains | (1) | (2) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$1,304 | \$1,496 |
| Y/Y% (Non-GAAP) | | 15% |

| (\$ in millions) | Q3 2012 | Q3 2013 |
|---|----------------|-----------------|
| UK revenues (GAAP) | \$1,216 | \$ 1,389 |
| exclude: | | |
| a) f/x impact on Q3'13 revenues using Q3'12 rates | n/a | 19 |
| b) hedging gains | (6) | (17) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$1,210 | \$1,391 |
| Y/Y% (Non-GAAP) | | 15% |

| (\$ in millions) | Q4 2012 | Q4 2013 |
|--|----------------|----------------|
| ROW revenues (GAAP) | \$5,608 | \$7,269 |
| exclude: | | |
| a) f/x impact on Q4'13 revenues using Q4'12 rates | n/a | 146 |
| b) hedging gains | (36) | (1) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$5,572 | \$7,414 |
| Y/Y% (Non-GAAP) | | 33% |

| (\$ in millions) | Q3 2012 | Q3 2013 |
|--|----------------|----------------|
| ROW revenues (GAAP) | \$4,894 | \$6,285 |
| exclude: | | |
| a) f/x impact on Q3'13 revenues using Q3'12 rates | n/a | 116 |
| b) hedging gains | (56) | (5) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$4,838 | \$6,396 |
| Y/Y% (Non-GAAP) | | 32% |

Google Segment - International Revenues excluding Hedging and FX Impact (Q/Q)

| (\$ in millions) | Q3 2013 | Q4 2013 |
|---|----------------|----------------|
| UK revenues (GAAP) | \$1,389 | \$1,503 |
| exclude: | | |
| a) f/x impact on Q4'13 revenues using Q3'13 rates | n/a | (54) |
| b) hedging gains | (17) | (2) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$1,372 | \$1,447 |
| Q/Q% (Non-GAAP) | | 5% |

| (\$ in millions) | Q2 2013 | Q3 2013 |
|---|----------------|----------------|
| UK revenues (GAAP) | \$1,321 | \$1,389 |
| exclude: | | |
| a) f/x impact on Q3'13 revenues using Q2'13 rates | n/a | (13) |
| b) hedging gains | (24) | (17) |
| UK revenues excluding f/x and hedging impact (Non-GAAP) | \$1,297 | \$1,359 |
| Q/Q% (Non-GAAP) | | 5% |

| (\$ in millions) | Q3 2013 | Q4 2013 |
|--|----------------|----------------|
| ROW revenues (GAAP) | \$6,285 | \$7,269 |
| exclude: | | |
| a) f/x impact on Q4'13 revenues using Q3'13 rates | n/a | (102) |
| b) hedging gains | (5) | (1) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$6,280 | \$7,166 |
| Q/Q% (Non-GAAP) | | 14% |

| (\$ in millions) | Q2 2013 | Q3 2013 |
|--|----------------|----------------|
| ROW revenues (GAAP) | \$5,890 | \$6,285 |
| exclude: | | |
| a) f/x impact on Q3'13 revenues using Q2'13 rates | n/a | 54 |
| b) hedging gains | (11) | (5) |
| ROW revenues excluding f/x and hedging impact (Non-GAAP) | \$5,879 | \$6,334 |
| Q/Q% (Non-GAAP) | | 8% |

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

| | Q4 2012 | | Q3 2013 | | Q4 2013 | |
|--|-----------------|-----------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------------|
| | \$ in millions | As a % of revenues ⁽¹⁾ | \$ in millions | As a % of revenues ⁽¹⁾ | \$ in millions | As a % of revenues ⁽¹⁾ |
| Cost of Revenues (GAAP) | \$6,213 | 43% | \$6,413 | 43% | \$7,438 | 44% |
| <i>Less: Non-GAAP adjustments ⁽²⁾</i> | <i>\$(171)</i> | | <i>\$(137)</i> | | <i>\$(169)</i> | |
| Cost of Revenues (non-GAAP) | \$6,042 | 42% | \$6,276 | 42% | \$7,269 | 43% |
| Research & Development (GAAP) | \$1,935 | 13% | \$2,017 | 14% | \$2,111 | 13% |
| <i>Less: Non-GAAP adjustments ⁽²⁾</i> | <i>\$(448)</i> | | <i>\$(459)</i> | | <i>\$(469)</i> | |
| Research & Development (non-GAAP) | \$1,487 | 10% | \$1,558 | 11% | \$1,642 | 10% |
| Sales & Marketing (GAAP) | \$1,751 | 12% | \$1,806 | 12% | \$2,126 | 13% |
| <i>Less: Non-GAAP adjustments ⁽²⁾</i> | <i>\$(140)</i> | | <i>\$(163)</i> | | <i>\$(156)</i> | |
| Sales & Marketing (non-GAAP) | \$1,611 | 11% | \$1,643 | 11% | \$1,970 | 12% |
| General & Administrative (GAAP) | \$1,126 | 8% | \$1,213 | 8% | \$1,261 | 7% |
| <i>Less: Non-GAAP adjustments ⁽²⁾</i> | <i>\$(119)</i> | | <i>\$(139)</i> | | <i>\$(123)</i> | |
| General & Administrative (non-GAAP) | \$1,007 | 7% | \$1,074 | 7% | \$1,138 | 6% |
| Total Costs & Expenses (GAAP) | \$11,025 | 76% | \$11,449 | 77% | \$12,936 | 77% |
| <i>Less: Non-GAAP adjustments ⁽²⁾</i> | <i>\$(878)</i> | | <i>\$(898)</i> | | <i>\$(917)</i> | |
| Total Costs & Expenses (non- GAAP) | \$10,147 | 70% | \$10,551 | 71% | \$12,019 | 71% |

⁽¹⁾ Percentages based on consolidated revenues of \$14,419 million in Q4 2012, \$14,893 million in Q3 2013 and \$16,858 million in Q4 2013.

⁽²⁾ Includes stock-based compensation expense for Google and Motorola Mobile, and restructuring and related charges for Motorola Mobile.

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

Consolidated

| (\$ in millions) | Q4 2012 | Q3 2013 | Q4 2013 |
|---|-----------------------|-----------------------|-----------------------|
| Income from Operations (GAAP) <i>Operating margin</i> ⁽¹⁾ | \$3,394 24% | \$3,444 23% | \$3,922 23% |
| <i>Add: Stock-based compensation expense (SBC)</i> | \$700 | \$886 | \$902 |
| <i>Add: Motorola Mobile restructuring and related charges</i> | \$178 | \$12 | \$15 |
| Income from Operations (non-GAAP) <i>Operating margin</i> ⁽¹⁾ | \$4,272 30% | \$4,342 29% | \$4,839 29% |
| Net Income (GAAP) | \$2,886 | \$2,970 | \$3,376 |
| <i>Add: Stock-based compensation expense (net of tax)</i> ⁽²⁾ | \$548 | \$679 | \$711 |
| <i>Add: Motorola Mobile restructuring and related charges (net of tax)</i> ⁽³⁾ | \$113 | \$9 | \$4 |
| <i>Less: Net income (loss) from discontinued operations</i> | \$21 | \$(15) | \$5 |
| Net Income (non-GAAP) | \$3,568 | \$3,643 | \$4,096 |

⁽¹⁾ Percentages based on consolidated revenues of \$14,419 million in Q4 2012, \$14,893 million in Q3 2013, and \$16,858 million in Q4 2013.

⁽²⁾ Tax effect of SBC is calculated using tax-deductible portion of SBC and applying entity-specific tax rates.

⁽³⁾ Tax effect of Motorola Mobile restructuring and related charges is calculated using entity-specific tax rates.