

**Q1 2014**

**Quarterly Earnings Summary**

# Q1 2014 Highlights

## Financial Highlights:

**Revenue growth of 19% Y/Y and decrease of 2% Q/Q.**

**Revenues were \$15.42 billion.**

- Google properties revenues increased 21% Y/Y and decreased 1% Q/Q
- Network revenues increased 4% Y/Y and decreased 4% Q/Q
- Other revenues increased 48% Y/Y and decreased 6% Q/Q
- Consolidated international revenues were \$8.76 billion.

## Operational Highlights:

**Strong financial metrics: revenue growth and cash flow.**

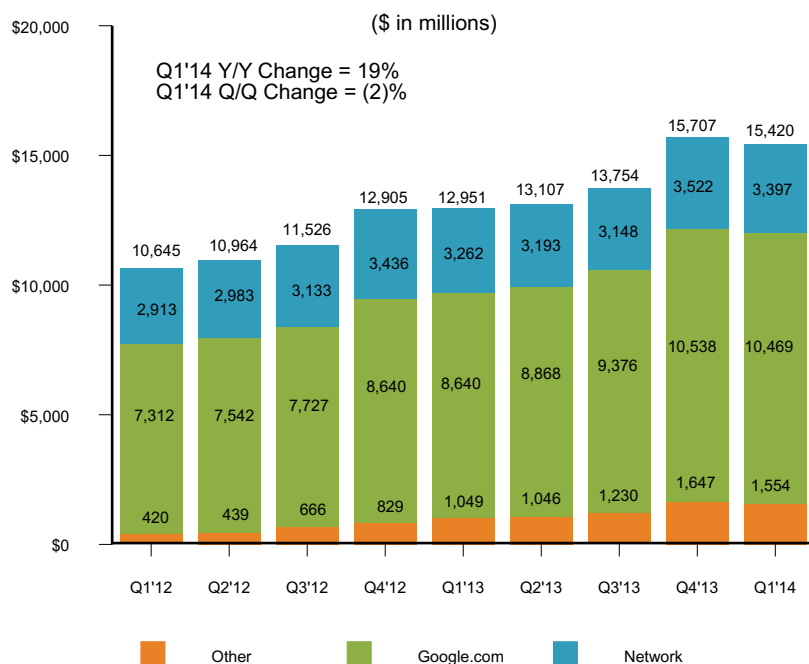
**Continuing to invest in three major areas of focus:**

- 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

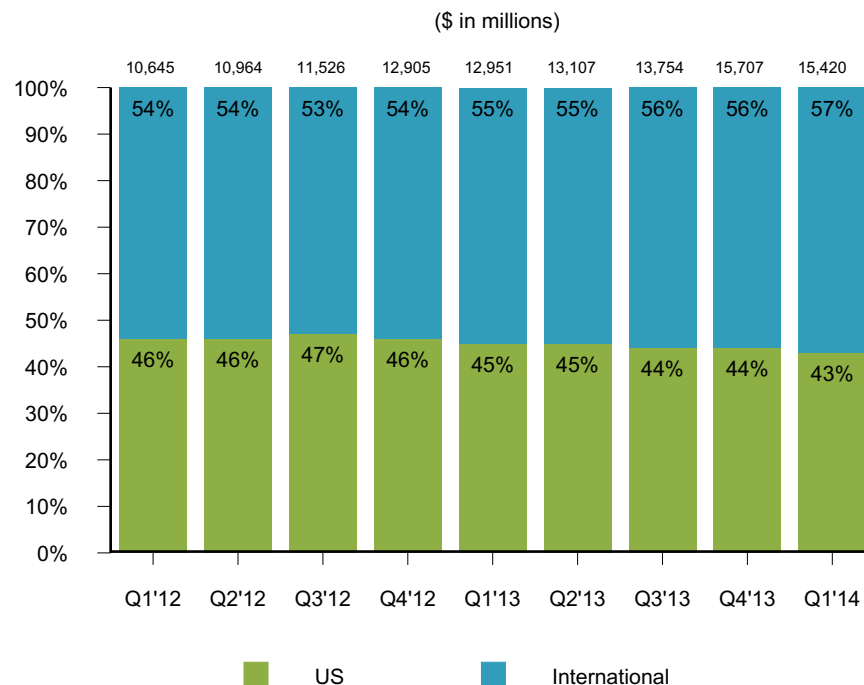
**Our infrastructure continues to be a key strategic area of investment.**

# Quarterly Revenues

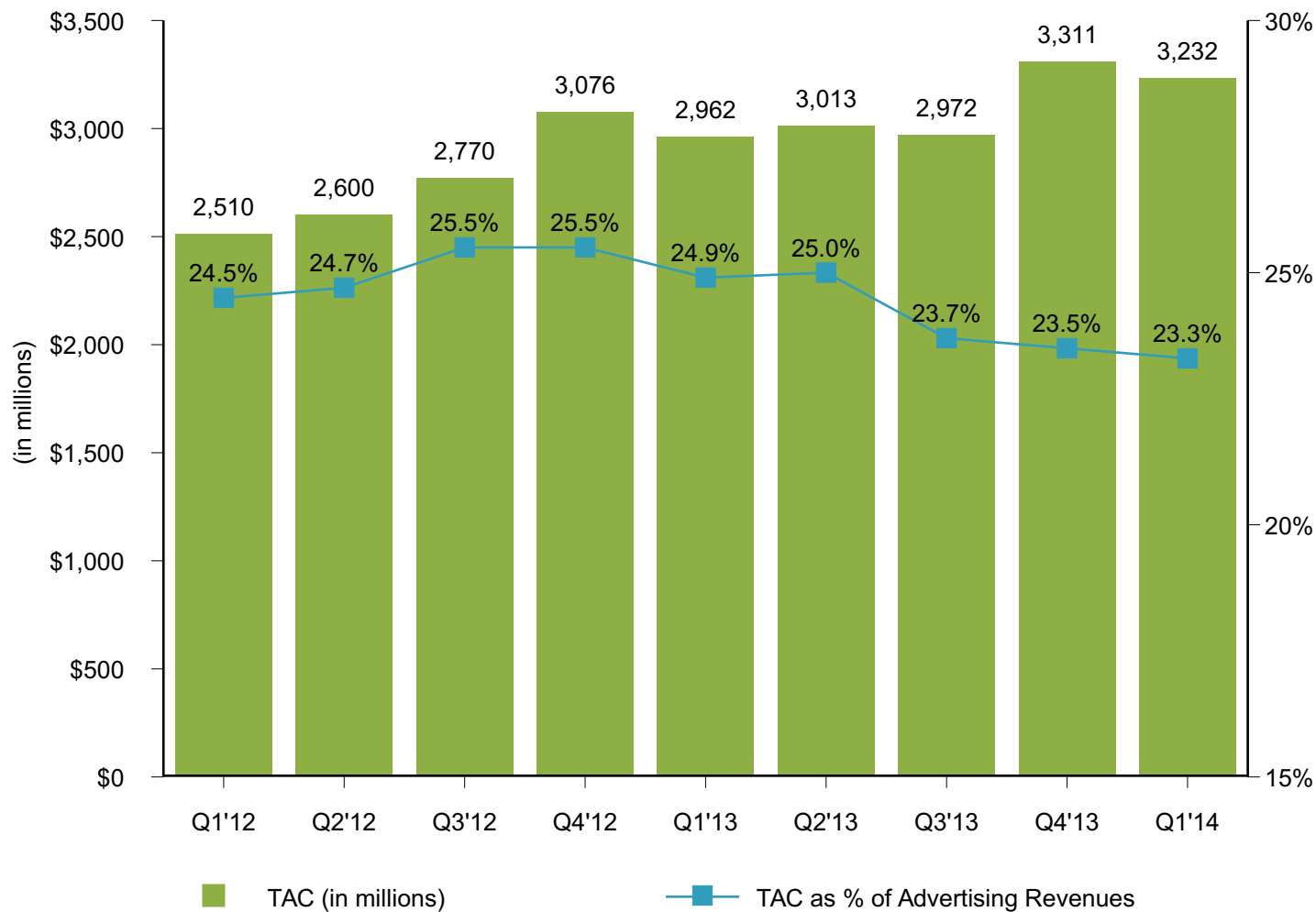
## Revenues by Revenue Source



## U.S. vs. International



# Traffic Acquisition Costs



# Costs and Expenses

GAAP	Q1 2013		Q4 2013		Q1 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,136	40%	\$6,253	40%	\$5,961	39%
Research & Development	\$1,617	12%	\$1,933	12%	\$2,126	14%
Sales & Marketing	\$1,435	11%	\$1,908	12%	\$1,729	11%
General & Administrative	\$1,015	8%	\$1,184	8%	\$1,489	9%
<b>Total Costs &amp; Expenses</b>	<b>\$9,203</b>	<b>71%</b>	<b>\$11,278</b>	<b>72%</b>	<b>\$11,305</b>	<b>73%</b>

Non-GAAP	Q1 2013		Q4 2013		Q1 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,037	39%	\$6,126	39%	\$5,866	38%
Research & Development	\$1,279	10%	\$1,467	9%	\$1,670	11%
Sales & Marketing	\$1,317	10%	\$1,754	11%	\$1,582	10%
General & Administrative	\$915	7%	\$1,058	7%	\$1,348	9%
<b>Total Costs &amp; Expenses</b>	<b>\$8,548</b>	<b>66%</b>	<b>\$10,405</b>	<b>66%</b>	<b>\$10,466</b>	<b>68%</b>

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

# Profitability

GAAP (\$ in millions)	Q1 2013	Q4 2013	Q1 2014
<b>Income from Operations</b>	<b>\$3,748</b>	<b>\$4,429</b>	<b>\$4,115</b>
<i>Operating margin <sup>(1)</sup></i>	<i>29%</i>	<i>28%</i>	<i>27%</i>
Net Income from continuing operations	\$3,528	\$3,882	\$3,650
Net Income (loss) from discontinued operations	\$(182)	\$(506)	\$(198)
<b>Net Income</b>	<b>\$3,346</b>	<b>\$3,376</b>	<b>\$3,452</b>
EPS (Diluted) - continuing operations	\$5.24	\$5.69	\$5.33
EPS (Diluted) - discontinued operations	\$(0.27)	\$(0.74)	\$(0.29)
<b>EPS (Diluted)</b>	<b>\$4.97</b>	<b>\$4.95</b>	<b>\$5.04</b>
Non-GAAP (\$ in millions)	Q1 2013	Q4 2013	Q1 2014
<b>Income from Operations</b>	<b>\$4,403</b>	<b>\$5,302</b>	<b>\$4,954</b>
<i>Operating margin <sup>(1)</sup></i>	<i>34%</i>	<i>34%</i>	<i>32%</i>
<b>Net Income</b>	<b>\$4,042</b>	<b>\$4,571</b>	<b>\$4,299</b>
<b>EPS (Diluted)</b>	<b>\$6.00</b>	<b>\$6.70</b>	<b>\$6.27</b>

<sup>(1)</sup> Percentages based on revenues of \$12,951 million in Q1 2013, \$15,707 million in Q4 2013 and \$15,420 million in Q1 2014.

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

# Consolidated Free Cash Flow

Non-GAAP (\$ in millions)	Q1 2013 <sup>(1)</sup>	Q4 2013 <sup>(2)</sup>	Q1 2014 <sup>(2)</sup>
Net cash provided by operating activities	\$3,633	\$5,238	\$4,391
Less: Purchases of property and equipment	\$(1,203)	\$(2,255)	\$(2,345)
<b>Free Cash Flow</b>	<b>\$2,430</b>	<b>\$2,983</b>	<b>\$2,046</b>

<sup>(1)</sup> Including Motorola Home and Motorola Mobile.

<sup>(2)</sup> Including Motorola Mobile.

# Overview of Q1 2014 OI&E and FX

- In Q1, we recognized \$357M of Interest and Other Income, net.
- In Q1, we recognized \$168M of interest income earned on our investments, \$74M of net realized gains on marketable securities, \$103M of realized gain on equity interests, \$117M of gains on non-marketable equity investments and \$24M of interest expense on our long-term debt.
- We recognized \$109M of foreign exchange loss, of which \$67M 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 fourth quarter of 2013 through the first quarter of 2014, our revenues in the first quarter of 2014 would have been \$50M higher. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the first quarter of 2013 through the first quarter of 2014, our revenues in the first quarter of 2014 would have been \$163M higher.
- Our FX cash flow hedging program allowed us to recognize a benefit of approximately \$8M to international revenues this quarter.



# Revenues by Geography

<i>(\$ in millions)</i>	Q1 2013	Q4 2013	Q1 2014
United States	\$5,836	\$6,940	\$6,656
United Kingdom	1,387	1,503	1,583
Rest of the world	5,728	7,264	7,181
<b>Total Revenues</b>	<b>\$12,951</b>	<b>\$15,707</b>	<b>\$15,420</b>

## International Revenues excluding Hedging and FX Impact (Y/Y)

<i>(\$ in millions)</i>	Q1 2013	Q1 2014
UK revenues (GAAP)	<b>\$1,387</b>	<b>\$1,583</b>
exclude:		
a) f/x impact on Q1'14 revenues using Q1'13 rates	n/a	(71)
b) hedging gains	(20)	0
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,367</b>	<b>\$1,512</b>
Y/Y% (Non-GAAP)		11%

<i>(\$ in millions)</i>	Q1 2013	Q1 2014
ROW revenues (GAAP)	<b>\$5,728</b>	<b>\$7,181</b>
exclude:		
a) f/x impact on Q1'14 revenues using Q1'13 rates	n/a	234
b) hedging gains	(15)	(8)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$5,713</b>	<b>\$7,407</b>
Y/Y% (Non-GAAP)		30%

## International Revenues excluding Hedging and FX Impact (Q/Q)

<i>(\$ in millions)</i>	Q4 2013	Q1 2014
UK revenues (GAAP)	<b>\$1,503</b>	<b>\$1,583</b>
exclude:		
a) f/x impact on Q1'14 revenues using Q4'13 rates	n/a	(36)
b) hedging gains	(2)	0
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,501</b>	<b>\$1,547</b>
Q/Q% (Non-GAAP)		3%

<i>(\$ in millions)</i>	Q4 2013	Q1 2014
ROW revenues (GAAP)	<b>\$7,264</b>	<b>\$7,181</b>
exclude:		
a) f/x impact on Q1'14 revenues using Q4'13 rates	n/a	86
b) hedging gains	(1)	(8)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$7,263</b>	<b>\$7,259</b>
Q/Q% (Non-GAAP)		0%

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

	Q1 2013		Q4 2013		Q1 2014	
	\$ in millions	As a % of revenues <sup>(1)</sup>	\$ in millions	As a % of revenues <sup>(1)</sup>	\$ in millions	As a % of revenues <sup>(1)</sup>
<b>Cost of Revenues (GAAP)</b>	<b>\$5,136</b>	<b>40%</b>	<b>\$6,253</b>	<b>40%</b>	<b>\$5,961</b>	<b>39%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(99)</i>		<i>\$(127)</i>		<i>\$(95)</i>	
<b>Cost of Revenues (non-GAAP)</b>	<b>\$5,037</b>	<b>39%</b>	<b>\$6,126</b>	<b>39%</b>	<b>\$5,866</b>	<b>38%</b>
<b>Research &amp; Development (GAAP)</b>	<b>\$1,617</b>	<b>12%</b>	<b>\$1,933</b>	<b>12%</b>	<b>\$2,126</b>	<b>14%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(338)</i>		<i>\$(466)</i>		<i>\$(456)</i>	
<b>Research &amp; Development (non-GAAP)</b>	<b>\$1,279</b>	<b>10%</b>	<b>\$1,467</b>	<b>9%</b>	<b>\$1,670</b>	<b>11%</b>
<b>Sales &amp; Marketing (GAAP)</b>	<b>\$1,435</b>	<b>11%</b>	<b>\$1,908</b>	<b>12%</b>	<b>\$1,729</b>	<b>11%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(118)</i>		<i>\$(154)</i>		<i>\$(147)</i>	
<b>Sales &amp; Marketing (non-GAAP)</b>	<b>\$1,317</b>	<b>10%</b>	<b>\$1,754</b>	<b>11%</b>	<b>\$1,582</b>	<b>10%</b>
<b>General &amp; Administrative (GAAP)</b>	<b>\$1,015</b>	<b>8%</b>	<b>\$1,184</b>	<b>8%</b>	<b>\$1,489</b>	<b>9%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(100)</i>		<i>\$(126)</i>		<i>\$(141)</i>	
<b>General &amp; Administrative (non-GAAP)</b>	<b>\$915</b>	<b>7%</b>	<b>\$1,058</b>	<b>7%</b>	<b>\$1,348</b>	<b>9%</b>
<b>Total Costs &amp; Expenses (GAAP)</b>	<b>\$9,203</b>	<b>71%</b>	<b>\$11,278</b>	<b>72%</b>	<b>\$11,305</b>	<b>73%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(655)</i>		<i>\$(873)</i>		<i>\$(839)</i>	
<b>Total Costs &amp; Expenses (non- GAAP)</b>	<b>\$8,548</b>	<b>66%</b>	<b>\$10,405</b>	<b>66%</b>	<b>\$10,466</b>	<b>68%</b>

<sup>(1)</sup> Percentages based on revenues of \$12,951 million in Q1 2013, \$15,707 million in Q4 2013 and \$15,420 million in Q1 2014.

<sup>(2)</sup> Includes Google stock-based compensation expense.

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

(\$ in millions)	Q1 2013	Q4 2013	Q1 2014
<b>Income from Operations (GAAP)</b> <i>Operating margin</i> <sup>(1)</sup>	<b>\$3,748</b> 29%	<b>\$4,429</b> 28%	<b>\$4,115</b> 27%
<i>Add: Stock-based compensation expense (SBC)</i>	\$655	\$873	\$839
<b>Income from Operations (non-GAAP)</b> <i>Operating margin</i> <sup>(1)</sup>	<b>\$4,403</b> 34%	<b>\$5,302</b> 34%	<b>\$4,954</b> 32%
<b>Net Income (GAAP)</b>	<b>\$3,346</b>	<b>\$3,376</b>	<b>\$3,452</b>
<i>Add: Stock-based compensation expense (net of tax)</i> <sup>(2)</sup>	\$514	\$689	\$649
<i>Less: Net income (loss) from discontinued operations</i>	\$182	\$506	\$198
<b>Net Income (non-GAAP)</b>	<b>\$4,042</b>	<b>\$4,571</b>	<b>\$4,299</b>

<sup>(1)</sup> Percentages based on revenues of \$12,951 million in Q1 2013, \$15,707 million in Q4 2013 and \$15,420 million in Q1 2014.

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