

Q2 2014

Quarterly Earnings Summary

Q2 2014 Highlights

Financial Highlights:

Revenue growth of 22% Y/Y and 3% Q/Q.

Revenues were \$15.96 billion.

- Google sites revenues increased 23% Y/Y and 4% Q/Q
- Network revenues increased 7% Y/Y and 1% Q/Q
- Other revenues increased 53% Y/Y and 3% Q/Q
- Consolidated international revenues were \$9.33 billion.

Operational Highlights:

Strong financial metrics: revenue growth and cash flow.

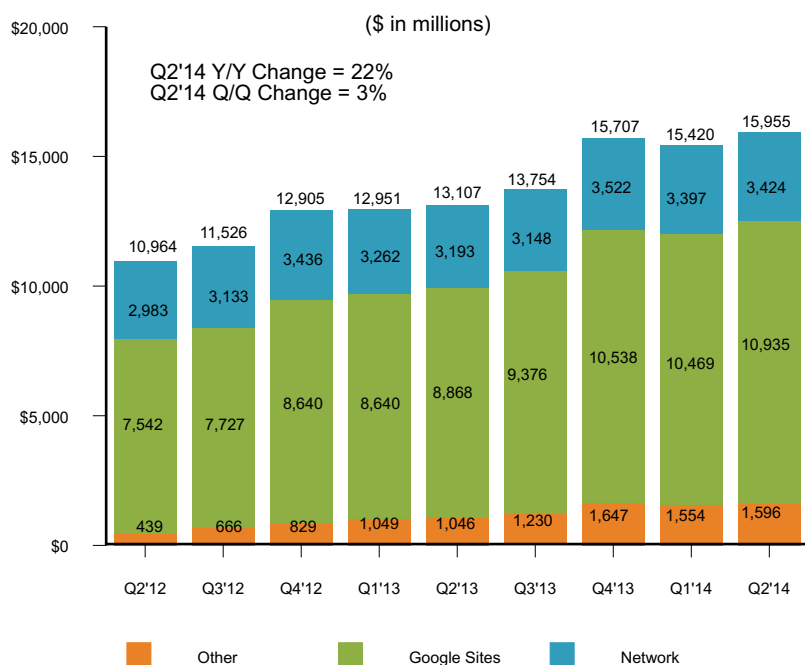
Continuing to invest in three major areas of focus:

- 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

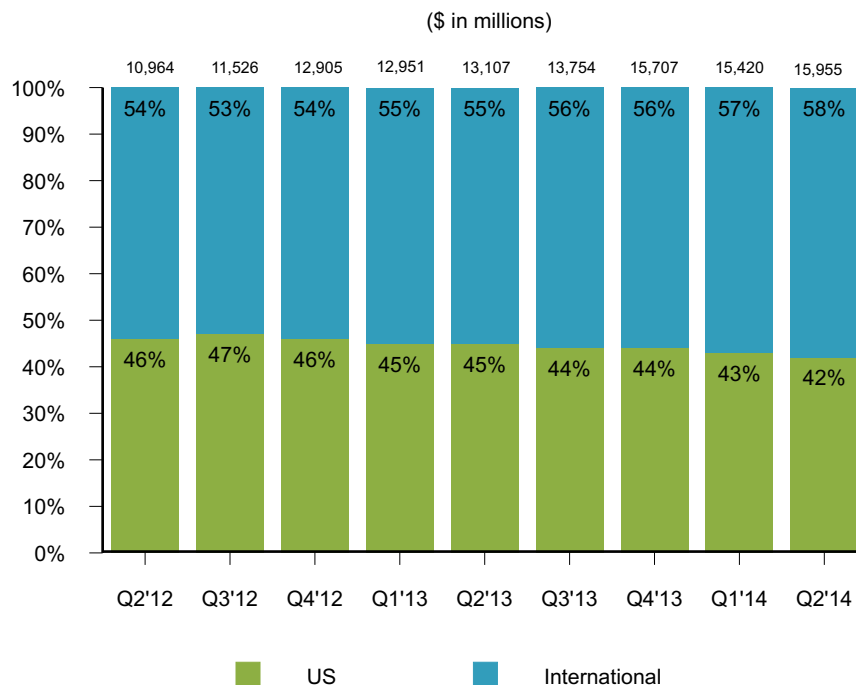
Our infrastructure, real estate, and facilities continue to be key strategic areas of investment.

Quarterly Revenues

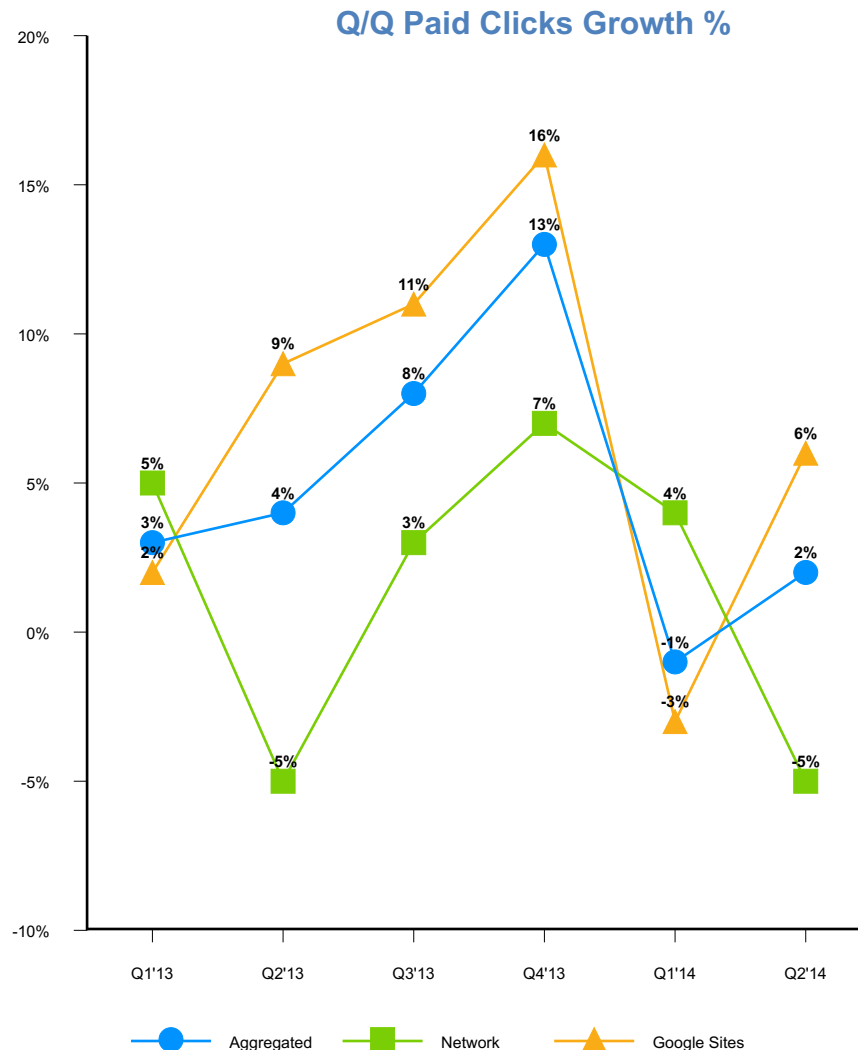
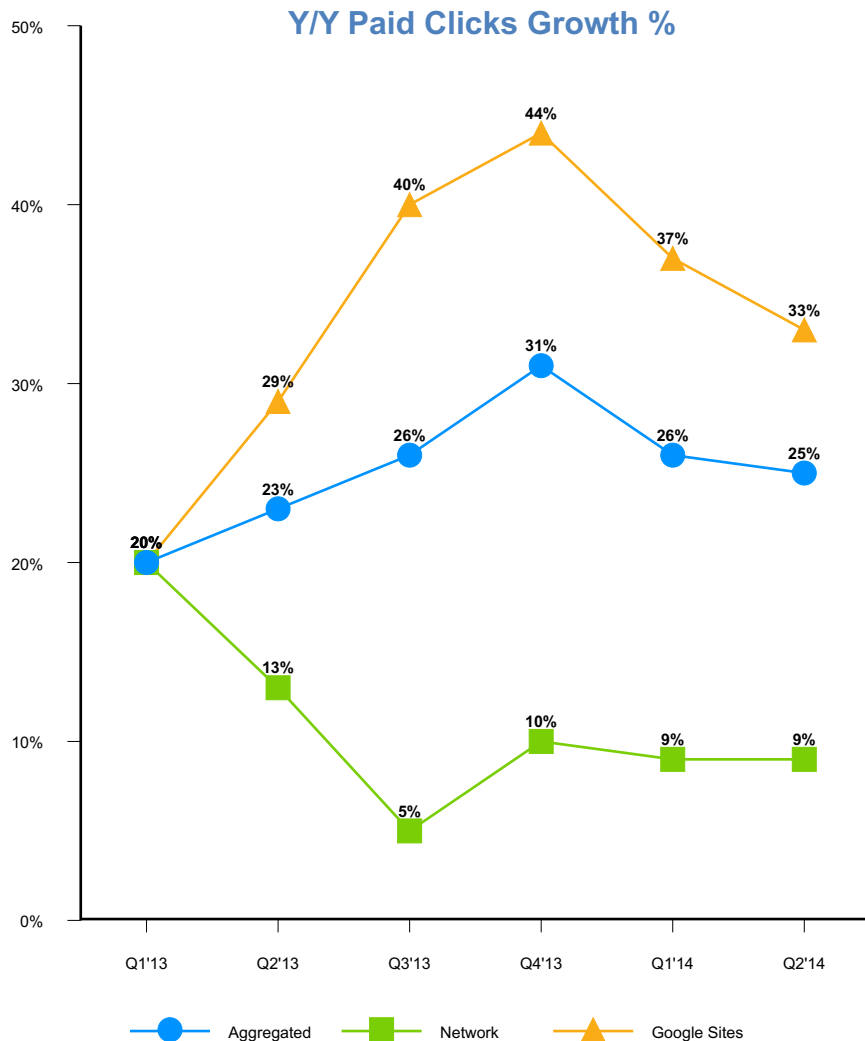
Revenues by Revenue Source



U.S. vs. International



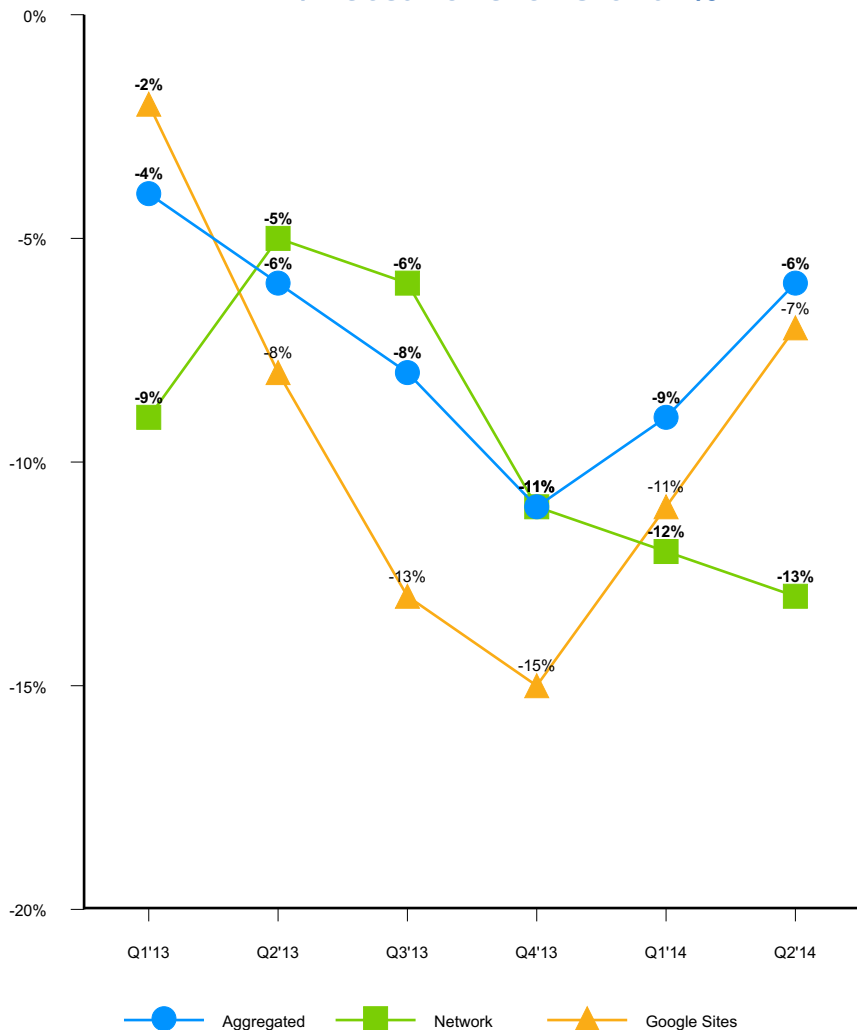
Paid Clicks (1)



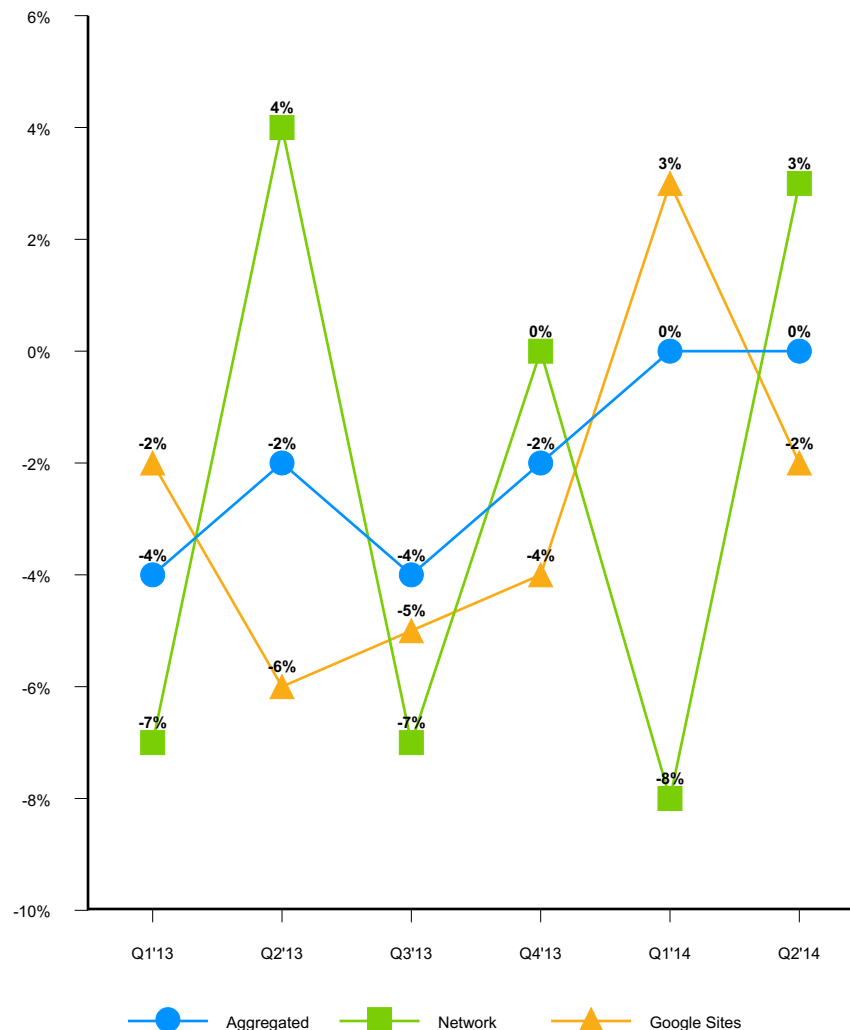
(1) Include clicks related to ads served on Google owned and operated properties across different geographies and form factors including search, YouTube engagement ads like TrueView, and other owned and operated properties like Maps and Finance, as well as clicks related to ads served on non-Google properties participating in our AdSense for Search, AdSense for Content, and AdMob businesses.

Cost-Per-Click

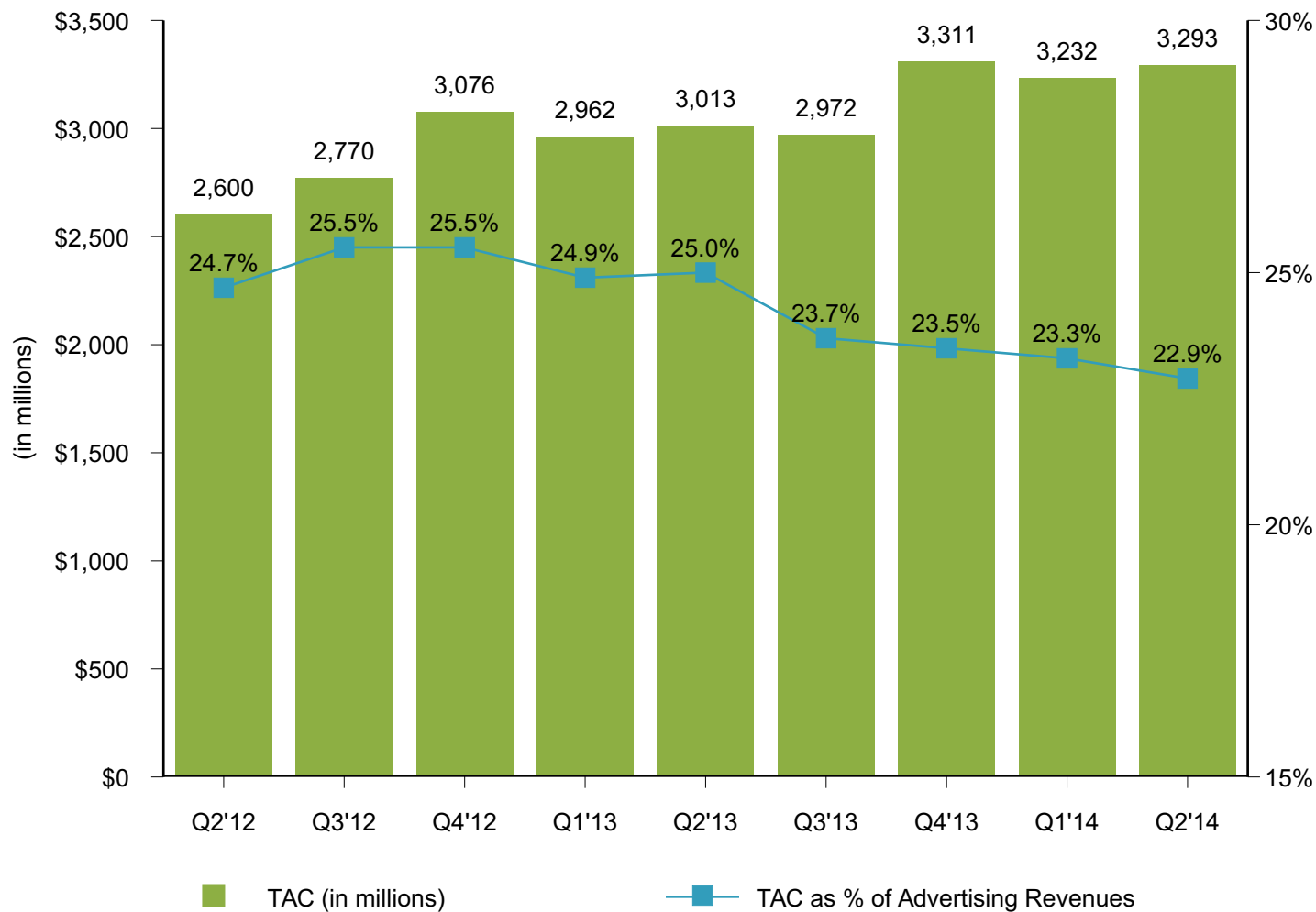
Y/Y Cost-Per-Click Growth %



Q/Q Cost-Per-Click Growth %



Traffic Acquisition Costs



Costs and Expenses

GAAP	Q2 2013		Q1 2014		Q2 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,195	40%	\$5,961	39%	\$6,114	38%
Research & Development	\$1,766	13%	\$2,126	14%	\$2,238	14%
Sales & Marketing	\$1,583	12%	\$1,729	11%	\$1,941	12%
General & Administrative	\$1,098	9%	\$1,489	9%	\$1,404	9%
Total Costs & Expenses	\$9,642	74%	\$11,305	73%	\$11,697	73%

Non-GAAP	Q2 2013		Q1 2014		Q2 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,085	39%	\$5,866	38%	\$6,014	38%
Research & Development	\$1,365	10%	\$1,670	11%	\$1,791	11%
Sales & Marketing	\$1,458	11%	\$1,582	10%	\$1,783	11%
General & Administrative	\$991	8%	\$1,348	9%	\$1,229	8%
Total Costs & Expenses	\$8,899	68%	\$10,466	68%	\$10,817	68%

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

Profitability

GAAP (\$ in millions)	Q2 2013	Q1 2014	Q2 2014
Income from Operations	\$3,465	\$4,115	\$4,258
<i>Operating margin ⁽¹⁾</i>	26%	27%	27%
Net Income from continuing operations	\$2,774	\$3,650	\$3,490
Net Income (loss) from discontinued operations	\$454	\$(198)	\$(68)
Net Income	\$3,228	\$3,452	\$3,422
EPS (Diluted) - continuing operations	\$4.10	\$5.33	\$5.09
EPS (Diluted) - discontinued operations	\$0.67	\$(0.29)	\$(0.10)
EPS (Diluted)	\$4.77	\$5.04	\$4.99

Non-GAAP (\$ in millions)	Q2 2013	Q1 2014	Q2 2014
Income from Operations	\$4,208	\$4,954	\$5,138
<i>Operating margin ⁽¹⁾</i>	32%	32%	32%
Net Income	\$3,357	\$4,299	\$4,175
EPS (Diluted)	\$4.96	\$6.27	\$6.08

⁽¹⁾ Percentages based on revenues of \$13,107 million in Q2 2013, \$15,420 million in Q1 2014 and \$15,955 million in Q2 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)	Q2 2013 ⁽¹⁾⁽²⁾	Q1 2014 ⁽²⁾	Q2 2014 ⁽²⁾
Net cash provided by operating activities	\$4,705	\$4,391	\$5,627
Less: Purchases of property and equipment	\$(1,611)	\$(2,345)	\$(2,646)
Free Cash Flow	\$3,094	\$2,046	\$2,981

⁽¹⁾ Including Motorola Home through the date of disposal (April 17, 2013).

⁽²⁾ Including Motorola Mobile.

Overview of Q2 2014 OI&E and FX

- In Q2, we recognized \$145M of Interest and Other Income, net.
- In Q2, we recognized \$169M of interest income earned on our investments, \$48M of net realized gains on marketable securities, \$23M of realized gain on equity interests, \$21M of gains on non-marketable equity investments and \$27M of interest expense on our long-term debt.
- We recognized \$93M 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 first quarter of 2014 through the second quarter of 2014, our revenues in the second quarter of 2014 would have been \$77M lower. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the second quarter of 2013 through the second quarter of 2014, our revenues in the second quarter of 2014 would have been \$120M lower.
- Our FX cash flow hedging program allowed us to recognize a benefit of approximately \$6M to international revenues this quarter.

Revenues by Geography

<i>(\$ in millions)</i>	Q2 2013	Q1 2014	Q2 2014
United States	\$5,896	\$6,656	\$6,630
United Kingdom	1,321	1,583	1,616
Rest of the world	5,890	7,181	7,709
Total Revenues	\$13,107	\$15,420	\$15,955

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

<i>(\$ in millions)</i>	Q2 2013	Q2 2014
UK revenues (GAAP)	\$1,321	\$1,616
exclude:		
a) f/x impact on Q2'14 revenues using Q2'13 rates	n/a	(124)
b) hedging gains	(24)	0
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,297	\$1,492
Y/Y% (Non-GAAP)		15%

<i>(\$ in millions)</i>	Q2 2013	Q2 2014
ROW revenues (GAAP)	\$5,890	\$7,709
exclude:		
a) f/x impact on Q2'14 revenues using Q2'13 rates	n/a	4
b) hedging gains	(11)	(6)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$5,879	\$7,707
Y/Y% (Non-GAAP)		31%

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

<i>(\$ in millions)</i>	Q1 2014	Q2 2014
UK revenues (GAAP)	\$1,583	\$1,616
exclude:		
a) f/x impact on Q2'14 revenues using Q1'14 rates	n/a	(16)
b) hedging gains	0	0
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,583	\$1,600
Q/Q% (Non-GAAP)		1%

<i>(\$ in millions)</i>	Q1 2014	Q2 2014
ROW revenues (GAAP)	\$7,181	\$7,709
exclude:		
a) f/x impact on Q2'14 revenues using Q1'14 rates	n/a	(61)
b) hedging gains	(8)	(6)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$7,173	\$7,642
Q/Q% (Non-GAAP)		7%

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

	Q2 2013		Q1 2014		Q2 2014	
	\$ 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)	\$5,195	40%	\$5,961	39%	\$6,114	38%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(110)		\$(95)		\$(100)	
Cost of Revenues (non-GAAP)	\$5,085	39%	\$5,866	38%	\$6,014	38%
Research & Development (GAAP)	\$1,766	13%	\$2,126	14%	\$2,238	14%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(401)		\$(456)		\$(447)	
Research & Development (non-GAAP)	\$1,365	10%	\$1,670	11%	\$1,791	11%
Sales & Marketing (GAAP)	\$1,583	12%	\$1,729	11%	\$1,941	12%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(125)		\$(147)		\$(158)	
Sales & Marketing (non-GAAP)	\$1,458	11%	\$1,582	10%	\$1,783	11%
General & Administrative (GAAP)	\$1,098	9%	\$1,489	9%	\$1,404	9%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(107)		\$(141)		\$(175)	
General & Administrative (non-GAAP)	\$991	8%	\$1,348	9%	\$1,229	8%
Total Costs & Expenses (GAAP)	\$9,642	74%	\$11,305	73%	\$11,697	73%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(743)		\$(839)		\$(880)	
Total Costs & Expenses (non- GAAP)	\$8,899	68%	\$10,466	68%	\$10,817	68%

⁽¹⁾ Percentages based on revenues of \$13,107 million in Q2 2013, \$15,420 million in Q1 2014 and \$15,955 million in Q2 2014.

⁽²⁾ 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)	Q2 2013	Q1 2014	Q2 2014
Income from Operations (GAAP)	\$3,465	\$4,115	\$4,258
<i>Operating margin ⁽¹⁾</i>	26%	27%	27%
<i>Add: Stock-based compensation expense (SBC)</i>	\$743	\$839	\$880
Income from Operations (non-GAAP)	\$4,208	\$4,954	\$5,138
<i>Operating margin ⁽¹⁾</i>	32%	32%	32%
Net Income (GAAP)	\$3,228	\$3,452	\$3,422
<i>Add: Stock-based compensation expense (net of tax) ⁽²⁾</i>	\$583	\$649	\$685
<i>Less: Net income (loss) from discontinued operations</i>	\$(454)	\$198	\$68
Net Income (non-GAAP)	\$3,357	\$4,299	\$4,175

⁽¹⁾ Percentages based on revenues of \$13,107 million in Q2 2013, \$15,420 million in Q1 2014 and \$15,955 million in Q2 2014.

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