

Q3 2014

Quarterly Earnings Summary

Q3 2014 Highlights

Financial Highlights:

Revenue growth of 20% Y/Y and 4% Q/Q.

Revenues were \$16.52 billion.

- Google sites revenues increased 20% Y/Y and 3% Q/Q
- Network revenues increased 9% Y/Y and 0% Q/Q
- Other revenues increased 50% Y/Y and 15% Q/Q
- Consolidated international revenues were \$9.55 billion.

Operational Highlights:

Strong financial metrics: revenue growth and operating cash flow.

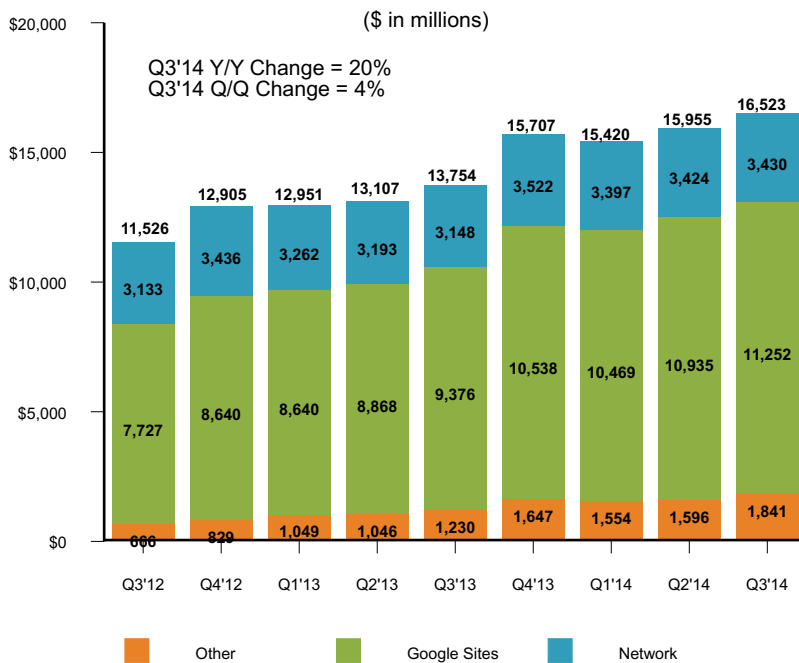
Continuing to focus on three major product areas:

- Core ads: Search and Display advertising
- Businesses demonstrating high consumer success: YouTube, Android/Play, and Chrome
- New businesses to drive adoption and innovation: Social, Commerce, Google for Work, and Cloud Platform

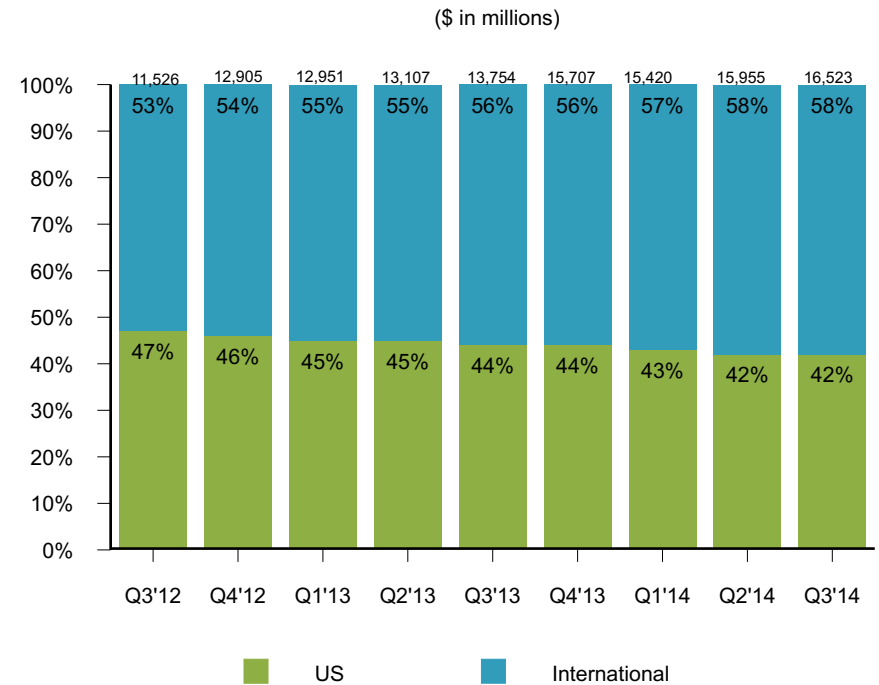
Our infrastructure, real estate, and facilities continue to be key strategic areas of investment.

Quarterly Revenues

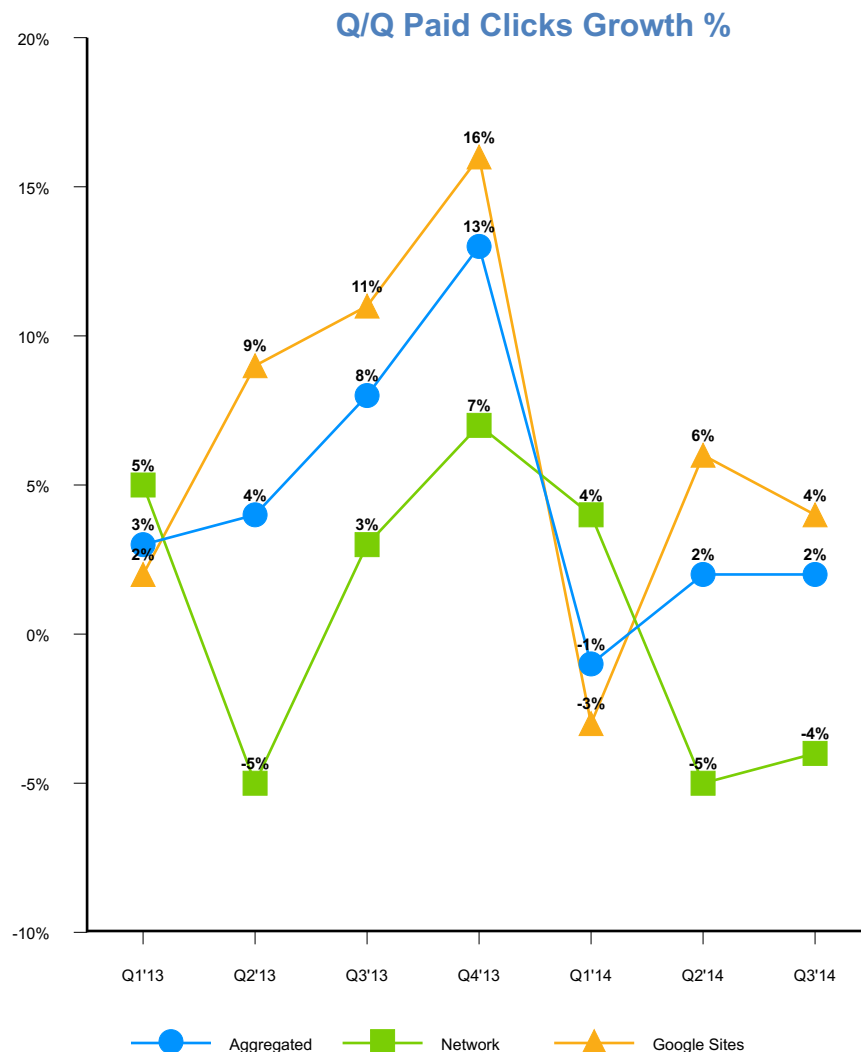
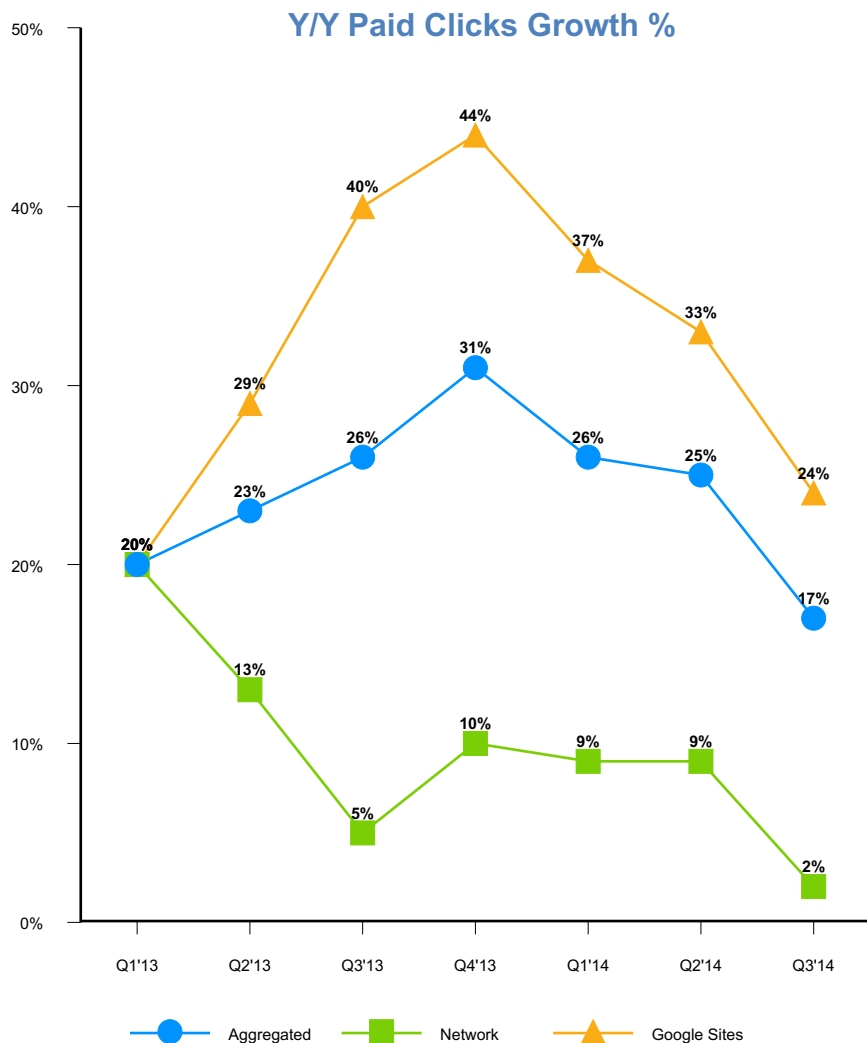
Revenues by Revenue Source



U.S. vs. International



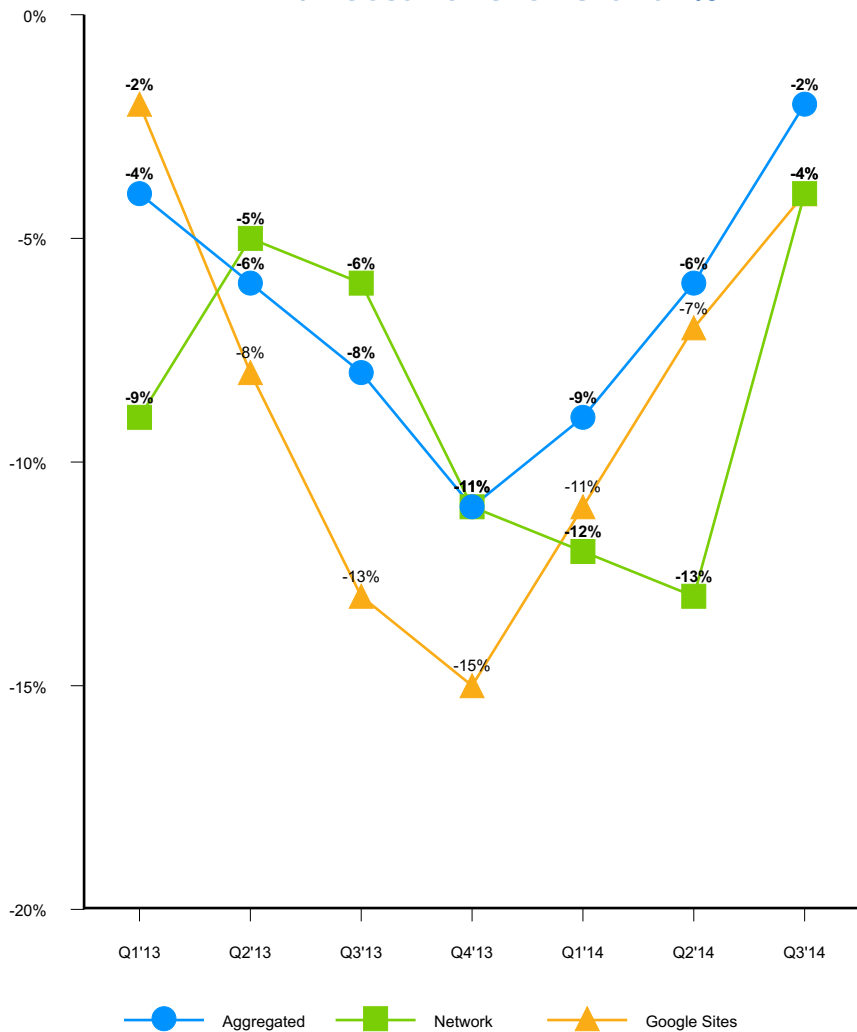
Paid Clicks (1)



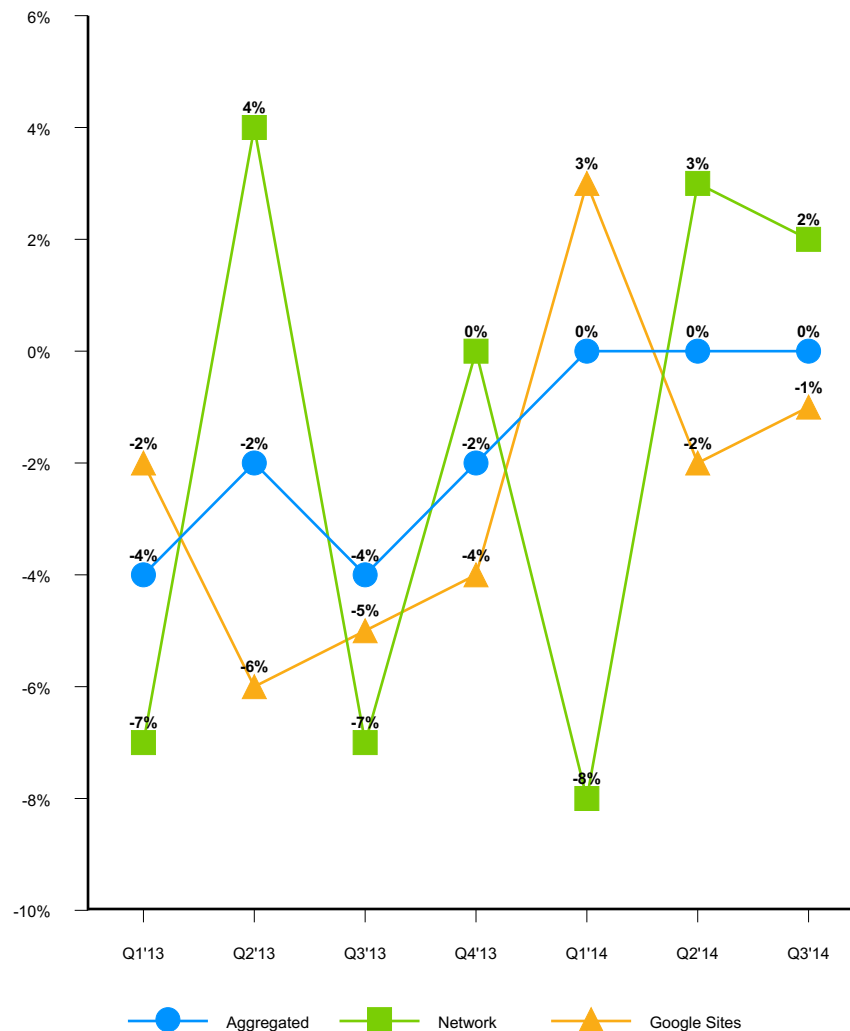
(1) Paid clicks include clicks related to ads served on Google owned and operated properties across different geographies and form factors including search, YouTube engagement ads like TrueView, and other owned and operated properties like Maps and Finance, as well as clicks related to ads served on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

Cost-Per-Click

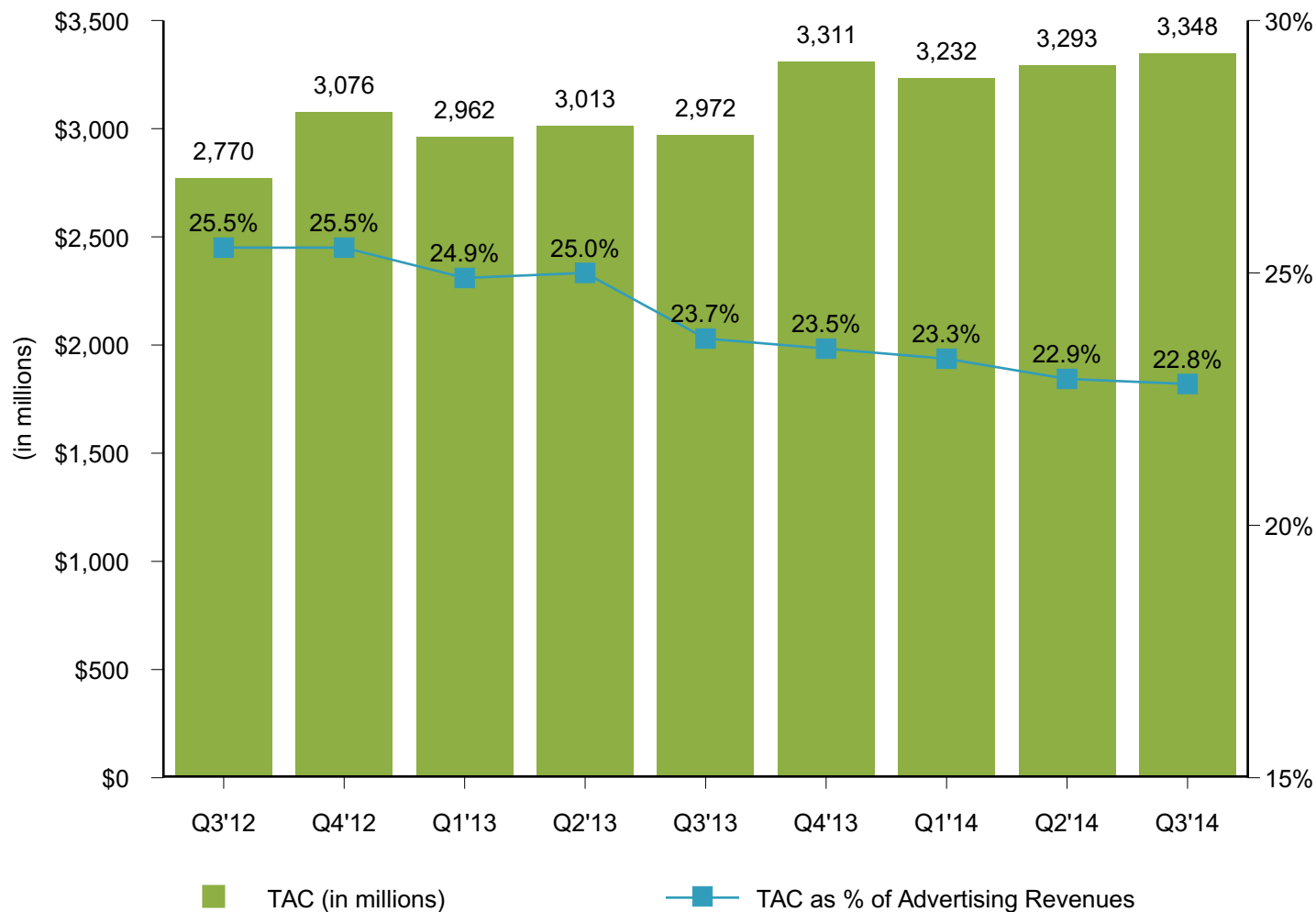
Y/Y Cost-Per-Click Growth %



Q/Q Cost-Per-Click Growth %



Traffic Acquisition Costs



Costs and Expenses

GAAP	Q3 2013		Q2 2014		Q3 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,409	39%	\$6,114	38%	\$6,695	40%
Research & Development	\$1,821	13%	\$2,238	14%	\$2,655	16%
Sales & Marketing	\$1,628	12%	\$1,941	12%	\$2,084	13%
General & Administrative	\$1,135	9%	\$1,404	9%	\$1,365	8%
Total Costs & Expenses	\$9,993	73%	\$11,697	73%	\$12,799	77%

Non-GAAP	Q3 2013		Q2 2014		Q3 2014	
	\$ in millions	As % of revenues	\$ in millions	As % of revenues	\$ in millions	As % of revenues
Cost of Revenues	\$5,276	38%	\$6,014	38%	\$6,148	37%
Research & Development	\$1,385	10%	\$1,791	11%	\$1,989	12%
Sales & Marketing	\$1,473	11%	\$1,783	11%	\$1,887	11%
General & Administrative	\$1,003	7%	\$1,229	8%	\$1,142	8%
Total Costs & Expenses	\$9,137	66%	\$10,817	68%	\$11,166	68%

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

Profitability

GAAP (\$ in millions)	Q3 2013	Q2 2014	Q3 2014
Income from Operations	\$3,761	\$4,258	\$3,724
<i>Operating Margin ⁽¹⁾</i>	<i>27%</i>	<i>27%</i>	<i>23%</i>
Net Income from Continuing Operations	\$3,163	\$3,490	\$2,998
Net Loss from Discontinued Operations	\$(193)	\$(68)	\$(185)
Net Income	\$2,970	\$3,422	\$2,813
EPS (Diluted) - Continuing Operations	\$4.66	\$5.09	\$4.36
EPS (Diluted) - Discontinued Operations	\$(0.28)	\$(0.10)	\$(0.27)
EPS (Diluted)	\$4.38	\$4.99	\$4.09

Non-GAAP (\$ in millions)	Q3 2013	Q2 2014	Q3 2014
Income from Operations	\$4,617	\$5,138	\$5,357
<i>Operating Margin ⁽¹⁾</i>	<i>34%</i>	<i>32%</i>	<i>32%</i>
Net Income	\$3,819	\$4,175	\$4,373
EPS (Diluted)	\$5.63	\$6.08	\$6.35

⁽¹⁾ Percentages based on revenues of \$13,754 million in Q3 2013, \$15,955 million in Q2 2014 and \$16,523 million in Q3 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)	Q3 2013 ⁽¹⁾	Q2 2014 ⁽¹⁾	Q3 2014 ⁽¹⁾
Net cash provided by operating activities	\$5,083	\$5,627	\$5,994
Less: Purchases of property and equipment	\$(2,289)	\$(2,646)	\$(2,417)
Free Cash Flow	\$2,794	\$2,981	\$3,577

⁽¹⁾ Includes Motorola Mobile.

Overview of Q3 2014 OI&E and FX

- In Q3, we recognized \$133M of Interest and Other Income, net.
- In Q3, we recognized \$187M of interest income earned on our investments, \$18M of net realized gains on marketable securities, and \$25M of interest expense on our long-term debt.
- We recognized \$67M of foreign exchange loss, of which \$52M 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 second quarter of 2014 through the third quarter of 2014, our revenues in the third quarter of 2014 would have been \$66M higher. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the third quarter of 2013 through the third quarter of 2014, our revenues in the third quarter of 2014 would have been \$106M lower.
- Our FX cash flow hedging program allowed us to recognize a benefit of approximately \$10M to international revenues this quarter.

Revenues by Geography

<i>(\$ in millions)</i>	Q3 2013	Q2 2014	Q3 2014
United States	\$6,080	\$6,630	\$6,975
United Kingdom	1,389	1,616	1,627
Rest of the world	6,285	7,709	7,921
Total Revenues	\$13,754	\$15,955	\$16,523

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

<i>(\$ in millions)</i>	Q3 2013	Q3 2014
UK revenues (GAAP)	\$1,389	\$1,627
exclude:		
a) f/x impact on Q3'14 revenues using Q3'13 rates	N/A	(121)
b) hedging gains	(17)	—
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,372	\$1,506
Y/Y% (Non-GAAP)		10%

<i>(\$ in millions)</i>	Q3 2013	Q3 2014
ROW revenues (GAAP)	\$6,285	\$7,921
exclude:		
a) f/x impact on Q3'14 revenues using Q3'13 rates	N/A	15
b) hedging gains	(5)	(10)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$6,280	\$7,926
Y/Y% (Non-GAAP)		26%

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

<i>(\$ in millions)</i>	Q2 2014	Q3 2014
UK revenues (GAAP)	\$1,616	\$1,627
exclude:		
a) f/x impact on Q3'14 revenues using Q2'14 rates	N/A	(9)
b) hedging gains	—	—
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,616	\$1,618
Q/Q% (Non-GAAP)		0%

<i>(\$ in millions)</i>	Q2 2014	Q3 2014
ROW revenues (GAAP)	\$7,709	\$7,921
exclude:		
a) f/x impact on Q3'14 revenues using Q2'14 rates	N/A	75
b) hedging gains	(6)	(10)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$7,703	\$7,986
Q/Q% (Non-GAAP)		4%

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

	Q3 2013		Q2 2014		Q3 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)	\$5,409	39%	\$6,114	38%	\$6,695	40%
<i>Less: Non-GAAP adjustments ⁽²⁾⁽³⁾</i>	\$(133)		\$(100)		\$(547)	
Cost of Revenues (non-GAAP)	\$5,276	38%	\$6,014	38%	\$6,148	37%
Research & Development (GAAP)	\$1,821	13%	\$2,238	14%	\$2,655	16%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(436)		\$(447)		\$(666)	
Research & Development (non-GAAP)	\$1,385	10%	\$1,791	11%	\$1,989	12%
Sales & Marketing (GAAP)	\$1,628	12%	\$1,941	12%	\$2,084	13%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(155)		\$(158)		\$(197)	
Sales & Marketing (non-GAAP)	\$1,473	11%	\$1,783	11%	\$1,887	11%
General & Administrative (GAAP)	\$1,135	9%	\$1,404	9%	\$1,365	8%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(132)		\$(175)		\$(223)	
General & Administrative (non-GAAP)	\$1,003	7%	\$1,229	8%	\$1,142	8%
Total Costs & Expenses (GAAP)	\$9,993	73%	\$11,697	73%	\$12,799	77%
<i>Less: Non-GAAP adjustments ⁽²⁾</i>	\$(856)		\$(880)		\$(1,633)	
Total Costs & Expenses (non- GAAP)	\$9,137	66%	\$10,817	68%	\$11,166	68%

⁽¹⁾ Percentages based on revenues of \$13,754 million in Q3 2013, \$15,955 million in Q2 2014 and \$16,523 million in Q3 2014.

⁽²⁾ Includes Google stock-based compensation expense.

⁽³⁾ For Q3 2014, includes impairment charge of \$378 million related to a patent licensing royalty asset acquired in connection with the purchase of Motorola.

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

(\$ in millions)	Q3 2013	Q2 2014	Q3 2014
Income from operations (GAAP)	\$3,761	\$4,258	\$3,724
<i>Operating margin ⁽¹⁾</i>	27%	27%	23%
<i>Add: Stock-based compensation expense (SBC)</i>	\$856	\$880	\$1,255
<i>Add: Impairment charge related to a patent licensing royalty asset acquired in connection with the purchase of Motorola</i>	-	-	\$378
Income from operations (non-GAAP)	\$4,617	\$5,138	\$5,357
<i>Operating margin ⁽¹⁾</i>	34%	32%	32%
Net income (GAAP)	\$2,970	\$3,422	\$2,813
<i>Add: Stock-based compensation expense (net of tax) ⁽²⁾</i>	\$656	\$685	\$997
<i>Add: Impairment charge related to a patent licensing royalty asset acquired in connection with the purchase of Motorola</i>	-	-	\$378
<i>Less: Net loss from discontinued operations</i>	\$193	\$68	\$185
Net income (non-GAAP)	\$3,819	\$4,175	\$4,373

⁽¹⁾ Percentages based on revenues of \$13,754 million in Q3 2013, \$15,955 million in Q2 2014 and \$16,523 million in Q3 2014.

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