

**Q1 2012**  
**Quarterly Earnings**  
**Summary**

# First Quarter 2012 Highlights

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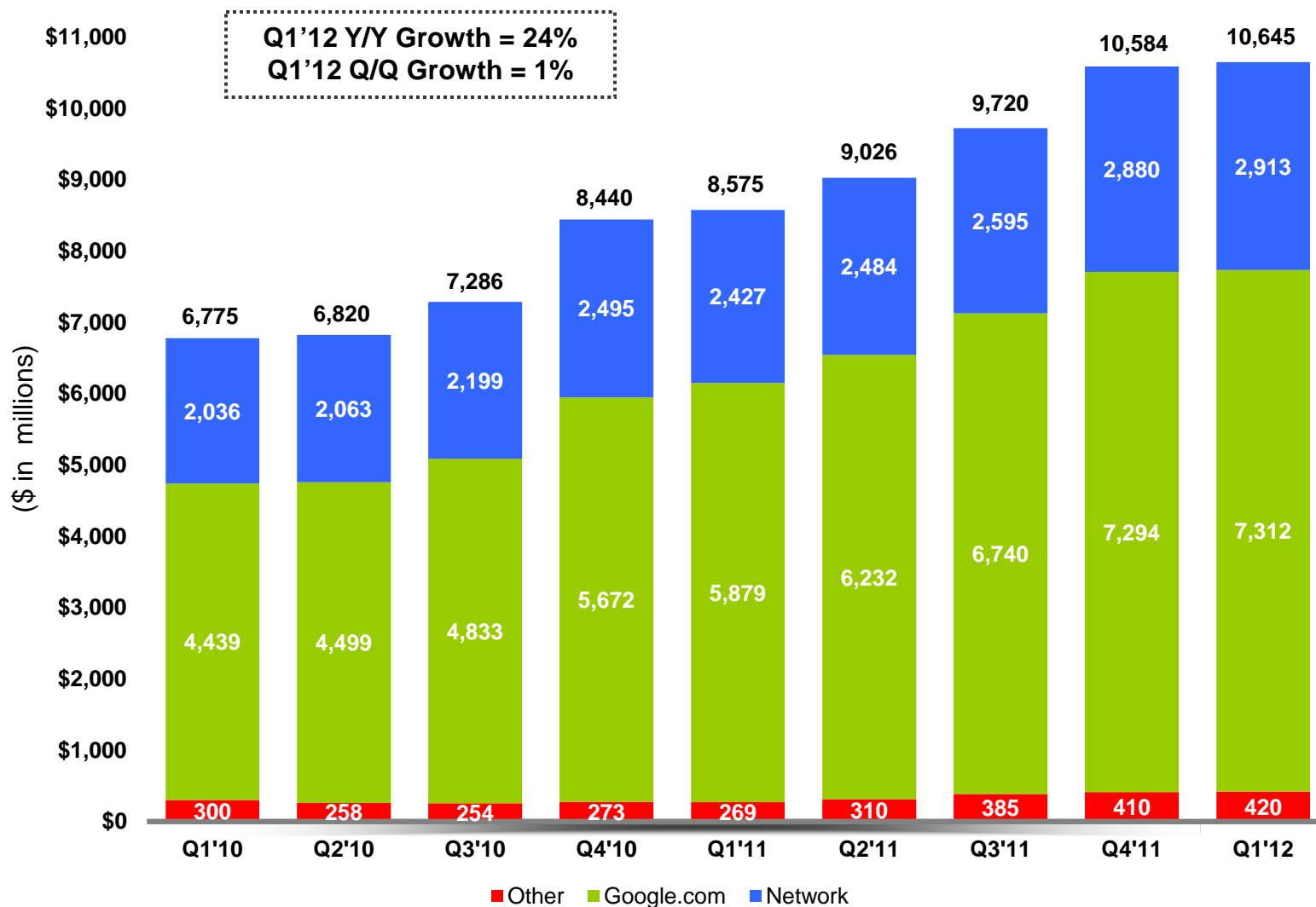
- Revenue growth of 24% Y/Y and 1% Q/Q

- Google properties revenues increased 24% Y/Y and flat Q/Q
- Network revenues increased 20% Y/Y and 1% Q/Q
- International revenues were \$5.8 billion

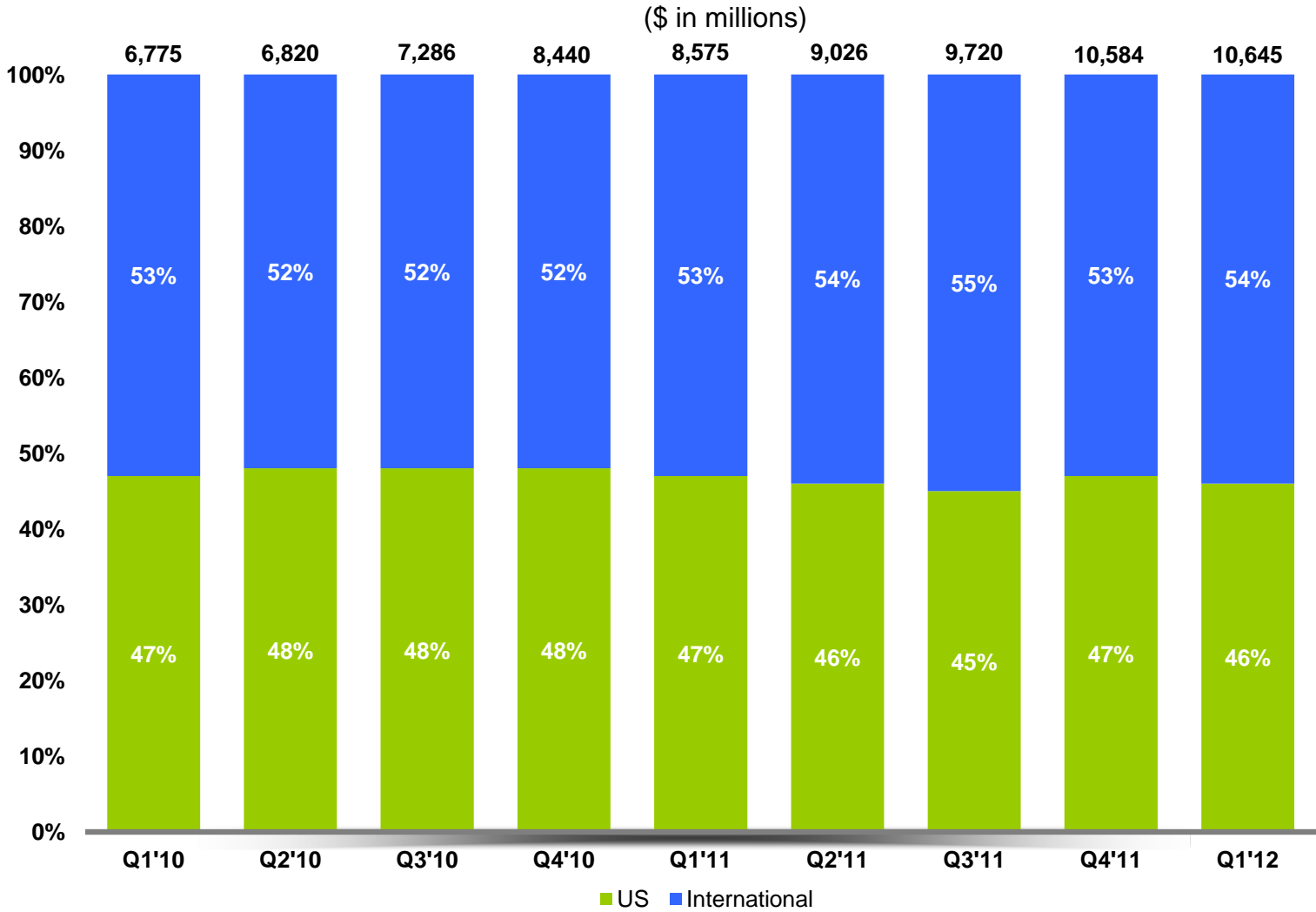
- Operational Highlights

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

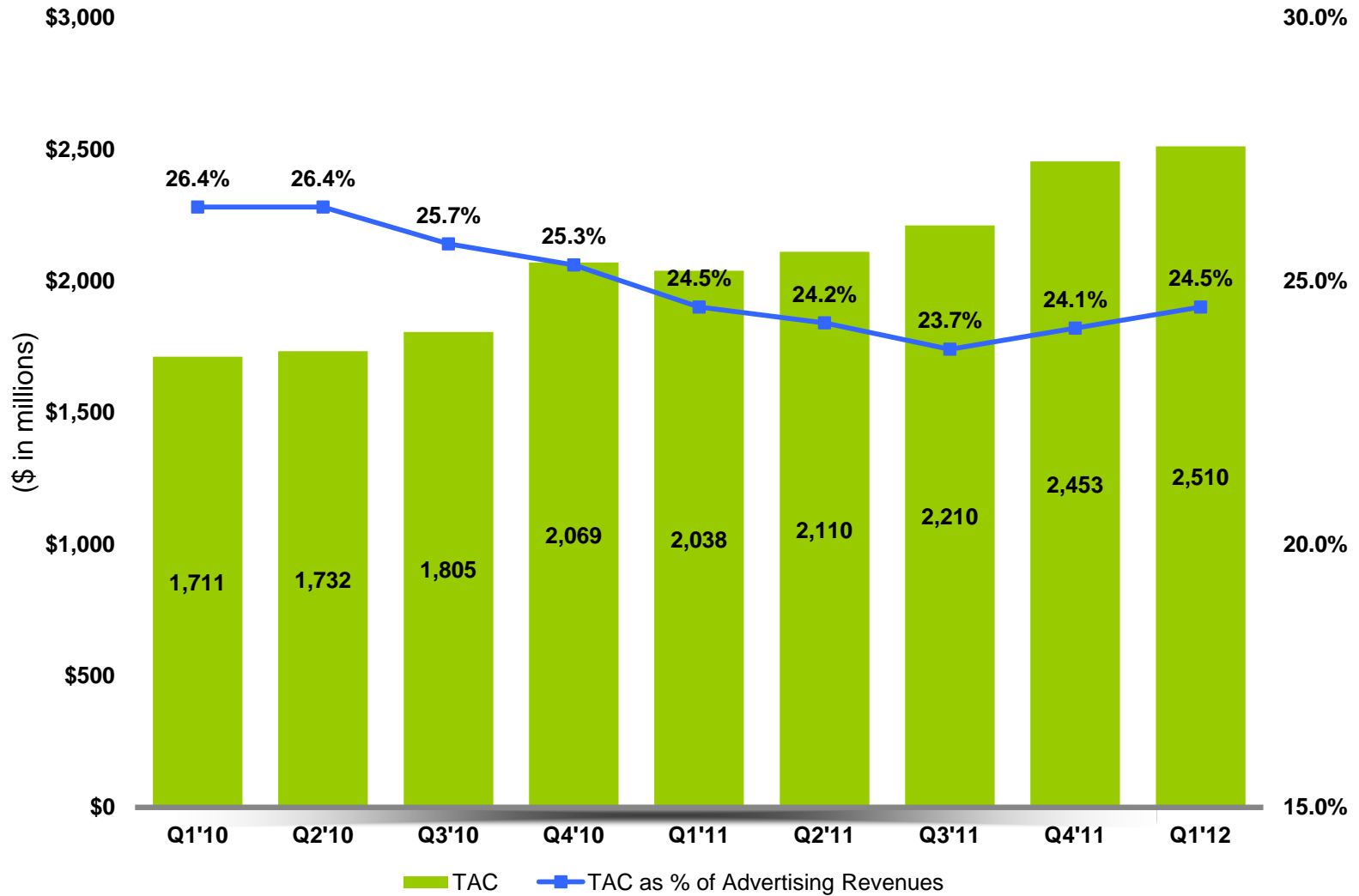
# Quarterly Revenues



# U.S. vs. International Revenues



# Traffic Acquisition Costs



# Costs and Expenses

<b>GAAP</b>			
<b>(\$ in millions)</b>	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>Cost of Revenue</b>	\$2,936	\$3,702	\$3,789
<i>Percent of revenues</i>	34%	35%	36%
<b>Research &amp; Development</b>	\$1,226	\$1,298	\$1,441
<i>Percent of revenues</i>	14%	12%	13%
<b>Sales &amp; Marketing</b>	\$1,026	\$1,268	\$1,269
<i>Percent of revenues</i>	12%	12%	12%
<b>General &amp; Administrative</b>	\$591	\$809	\$757
<i>Percent of revenues</i>	7%	8%	7%
<b>Charge related to the resolution of Department of Justice investigation</b>	\$500	\$0	\$0
<i>Percent of revenues</i>	6%	0%	0%
<b>Total Costs &amp; Expenses</b>	\$6,279	\$7,077	\$7,256
<i>Percent of revenues</i>	73%	67%	68%
<b>Non-GAAP</b>			
<b>(\$ in millions)</b>	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>Cost of Revenue</b>	\$2,887	\$3,625	\$3,715
<i>Percent of revenues</i>	34%	34%	35%
<b>Research &amp; Development</b>	\$989	\$1,032	\$1,142
<i>Percent of revenues</i>	12%	10%	11%
<b>Sales &amp; Marketing</b>	\$948	\$1,163	\$1,172
<i>Percent of revenues</i>	11%	11%	11%
<b>General &amp; Administrative</b>	\$523	\$721	\$671
<i>Percent of revenues</i>	6%	7%	6%
<b>Charge related to the resolution of Department of Justice investigation</b>	\$0	\$0	\$0
<i>Percent of revenues</i>	0%	0%	0%
<b>Total Costs &amp; Expenses</b>	\$5,347	\$6,541	\$6,700
<i>Percent of revenues</i>	62%	62%	63%

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

# Profitability

<b>GAAP</b> (\$ in millions except per share amounts)	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>Income from Operations</b>	\$ 2,296	\$ 3,507	\$ 3,389
<i>Operating Margin</i>	27%	33%	32%
<b>Net Income</b>	\$ 1,798	\$ 2,705	\$ 2,890
<b>EPS (diluted)</b>	\$ 5.51	\$ 8.22	\$ 8.75

<b>Non-GAAP</b> (\$ in millions except per share amounts)	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>Income from Operations</b>	\$ 3,228	\$ 4,043	\$ 3,945
<i>Operating Margin</i>	38%	38%	37%
<b>Net Income</b>	\$ 2,638	\$ 3,127	\$ 3,328
<b>EPS (diluted)</b>	\$ 8.08	\$ 9.50	\$ 10.08

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

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<b>(\$ in millions)</b>	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>Net cash provided by operating activities</b>	\$3,172	\$3,924	\$3,694
<b>Less purchases of property and equipment</b>	(\$890)	(\$951)	(\$607)
<b><u>Free cash flow (non-GAAP)</u></b>	<u>\$2,282</u>	<u>\$2,973</u>	<u>\$3,087</u>



# Overview of Q1 2012 OI&E and FX

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## **In Interest and Other Income, Net, we recognized net income of \$156M for Q1**

- In Q1, we recognized \$182M of interest income earned on our investments and \$120M in realized gains.
- We expensed \$126M 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 Q4 2011 through Q1 2012, our revenue in Q1 2012 would have been \$79M higher. Excluding gains related to our FX cash flow hedging program, had foreign exchange rates remained constant from Q1 2011 through Q1 2012, our revenue in Q1 2012 would have been \$67M higher.
- In addition, our FX cash flow hedging program allowed us to recognize a benefit of approximately \$37M to international revenue this quarter.

# Revenues by Geography

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<b>(\$ in millions)</b>	<b>Q1'11</b>	<b>Q4'11</b>	<b>Q1'12</b>
<b>United States</b>	\$4,005	\$4,980	\$4,874
<b>United Kingdom</b>	\$969	\$1,064	\$1,150
<b>Rest of the world</b>	\$3,601	\$4,540	\$4,621
<b><u>Total Revenues</u></b>	<b>\$8,575</b>	<b>\$10,584</b>	<b>\$10,645</b>

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

(\$ in millions)	Q1'11	Q1'12
<b>UK revenues (GAAP)</b>	\$969	\$1,150
<i>exclude:</i>		
a) f/x impact on Q1'12 revenues using Q1'11 rates (gains)/losses	n/a	7
b) hedging gains	(4)	(4)
<b>UK revenues excluding f/x and hedging impact (Non-GAAP)</b>	\$965	\$1,153
<b>Y/Y % (Non-GAAP)</b>		19%

(\$ in millions)	Q1'11	Q1'12
<b>ROW revenues (GAAP)</b>	\$3,601	\$4,621
<i>exclude:</i>		
a) f/x impact on Q1'12 revenues using Q1'11 rates (gains)/losses	n/a	60
b) hedging gains	(10)	(33)
<b>ROW revenues excluding f/x and hedging impact (Non-GAAP)</b>	\$3,591	\$4,648
<b>Y/Y % (Non-GAAP)</b>		29%

(\$ in millions)	Q4'10	Q4'11
<b>UK revenues (GAAP)</b>	\$878	\$1,064
<i>exclude:</i>		
a) f/x impact on Q4'11 revenues using Q4'10 rates (gains)/losses	n/a	2
b) hedging gains	(2)	(6)
<b>UK revenues excluding f/x and hedging impact (Non-GAAP)</b>	\$876	\$1,060
<b>Y/Y % (Non-GAAP)</b>		21%

(\$ in millions)	Q4'10	Q4'11
<b>ROW revenues (GAAP)</b>	\$3,507	\$4,540
<i>exclude:</i>		
a) f/x impact on Q4'11 revenues using Q4'10 rates (gains)/losses	n/a	(41)
b) hedging gains	(23)	(19)
<b>ROW revenues excluding f/x and hedging impact (Non-GAAP)</b>	\$3,484	\$4,480
<b>Y/Y % (Non-GAAP)</b>		29%

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

(\$ in millions)	Q4'11	Q1'12
UK revenues (GAAP)	\$1,064	\$1,150
<i>exclude:</i>		
a) f/x impact on Q1'12 revenues using Q4'11 rates (gains)/losses	n/a	4
b) hedging gains	(6)	(4)
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,058	\$1,150
Q/Q % (Non-GAAP)	9%	

(\$ in millions)	Q4'11	Q1'12
ROW revenues (GAAP)	\$4,540	\$4,621
<i>exclude:</i>		
a) f/x impact on Q1'12 revenues using Q4'11 rates (gains)/losses	n/a	75
b) hedging gains	(19)	(33)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$4,521	\$4,663
Q/Q % (Non-GAAP)	3%	

(\$ in millions)	Q3'11	Q4'11
UK revenues (GAAP)	\$1,047	\$1,064
<i>exclude:</i>		
a) f/x impact on Q4'11 revenues using Q3'11 rates (gains)/losses	n/a	32
b) hedging gains	-	(6)
UK revenues excluding f/x and hedging impact (Non-GAAP)	\$1,047	\$1,090
Q/Q % (Non-GAAP)	4%	

(\$ in millions)	Q3'11	Q4'11
ROW revenues (GAAP)	\$4,253	\$4,540
<i>exclude:</i>		
a) f/x impact on Q4'11 revenues using Q3'11 rates (gains)/losses	n/a	207
b) hedging gains	(1)	(19)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	\$4,252	\$4,728
Q/Q % (Non-GAAP)	11%	

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

(\$ in millions)	Q1'11	As a % of Revenues (1)	Q4'11	As a % of Revenues (1)	Q1'12	As a % of Revenues (1)
<b>Cost of revenue (GAAP)</b>	\$ 2,936	34%	\$ 3,702	35%	\$ 3,789	36%
Less: Stock-based compensation expense	(49)		(77)		(74)	
<b>Cost of revenue (non-GAAP)</b>	\$ 2,887	34%	\$ 3,625	34%	\$ 3,715	35%
<b>Research and development (GAAP)</b>	\$ 1,226	14%	\$ 1,298	12%	\$ 1,441	13%
Less: Stock-based compensation expense	(237)		(266)		(299)	
<b>Research and development (non-GAAP)</b>	\$ 989	12%	\$ 1,032	10%	\$ 1,142	11%
<b>Sales and marketing (GAAP)</b>	\$ 1,026	12%	\$ 1,268	12%	\$ 1,269	12%
Less: Stock-based compensation expense	(78)		(105)		(97)	
<b>Sales and marketing (non-GAAP)</b>	\$ 948	11%	\$ 1,163	11%	\$ 1,172	11%
<b>General and administrative (GAAP)</b>	\$ 591	7%	\$ 809	8%	\$ 757	7%
Less: Stock-based compensation expense	(68)		(88)		(86)	
<b>General and administrative (non-GAAP)</b>	\$ 523	6%	\$ 721	7%	\$ 671	6%
<b>Charge related to the resolution of Department of Justice investigation (GAAP)</b>	\$ 500	6%	\$ -	0%	\$ -	0%
Less: Charge related to the resolution of Department of Justice investigation	(500)		-		-	
<b>Charge related to the resolution of Department of Justice investigation (non-GAAP)</b>	\$ -	0%	\$ -	0%	\$ -	0%
<b>Total costs and expenses (GAAP)</b>	\$ 6,279	73%	\$ 7,077	67%	\$ 7,256	68%
Less: Stock-based compensation expense and charge related to the resolution of Department of Justice investigation	(932)		(536)		(556)	
<b>Total costs and expenses (non-GAAP)</b>	\$ 5,347	62%	\$ 6,541	62%	\$ 6,700	63%

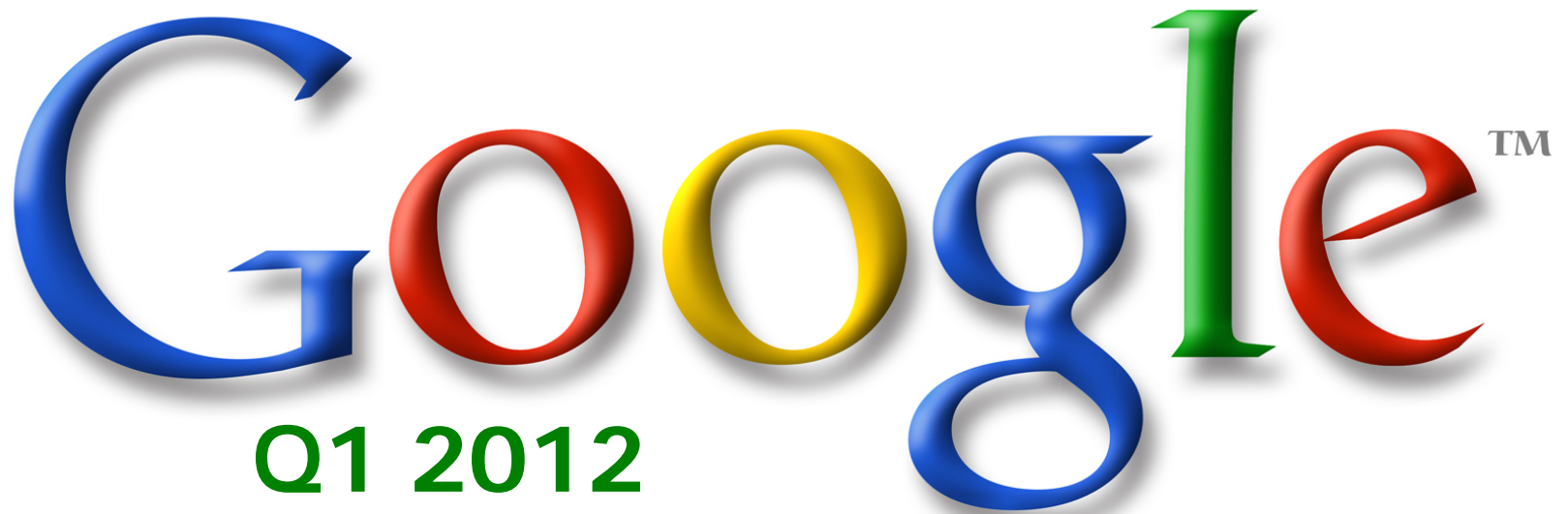
(1) Percentages based on consolidated revenues of \$8,575 million in Q1'11, \$10,584 million in Q4'11 and \$10,645 million in Q1'12.

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

(In millions except per share amounts)	Q1'11	Operating Margin (1)	Q4'11	Operating Margin (1)	Q1'12	Operating Margin (1)
<b>Income from operations (GAAP)</b>	<b>\$2,296</b>	<b>27%</b>	<b>\$3,507</b>	<b>33%</b>	<b>\$3,389</b>	<b>32%</b>
Add: Stock-based compensation expense	432		536		556	
Add: Charge related to the resolution of Department of Justice investigation	500		-		-	
<b>Income from operations (non-GAAP)</b>	<b>\$3,228</b>	<b>38%</b>	<b>\$4,043</b>	<b>38%</b>	<b>\$3,945</b>	<b>37%</b>
<b>Net income (GAAP)</b>	<b>\$1,798</b>		<b>\$2,705</b>		<b>\$2,890</b>	
Add: Stock-based compensation expense (net of tax effect) (2)	340		422		438	
Add: Charge related to the resolution of Department of Justice investigation	500		-		-	
<b>Net income (non-GAAP)</b>	<b>\$2,638</b>		<b>\$3,127</b>		<b>\$3,328</b>	
<b>Net income per share - diluted (GAAP)</b>	<b>\$ 5.51</b>		<b>\$ 8.22</b>		<b>\$ 8.75</b>	
<b>Net income per share - diluted (non-GAAP)</b>	<b>\$ 8.08</b>		<b>\$ 9.50</b>		<b>\$10.08</b>	
Shares used in per share calculation - diluted	326		329		330	

(1) Percentages based on consolidated revenues of \$8,575 million in Q1'11, \$10,584 million in Q4'11 and \$10,645 million in Q1'12.

(2) The tax effect of stock-based compensation expense is calculated using the tax-deductible portion of stock-based compensation expense and applying the entity-specific, U.S. federal and blended state tax rates.



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