

**Q2 2013**

**Quarterly Earnings Summary**

# Q2 2013 Highlights

## Financial Highlights:

**Consolidated revenues growth of 19% Y/Y and 1% Q/Q.**

**Consolidated revenues were \$14.11 billion.**

- Google revenues (advertising and other) were \$13.11 billion
  - Google properties revenues increased 18% Y/Y and 3% Q/Q
  - Network revenues increased 7% Y/Y and decreased 2% Q/Q
  - Other revenues increased 138% Y/Y and flat Q/Q
- Motorola Mobile revenues (hardware and other) were \$998 million.
- Consolidated international revenues were \$7.7 billion.

## Operational Highlights:

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

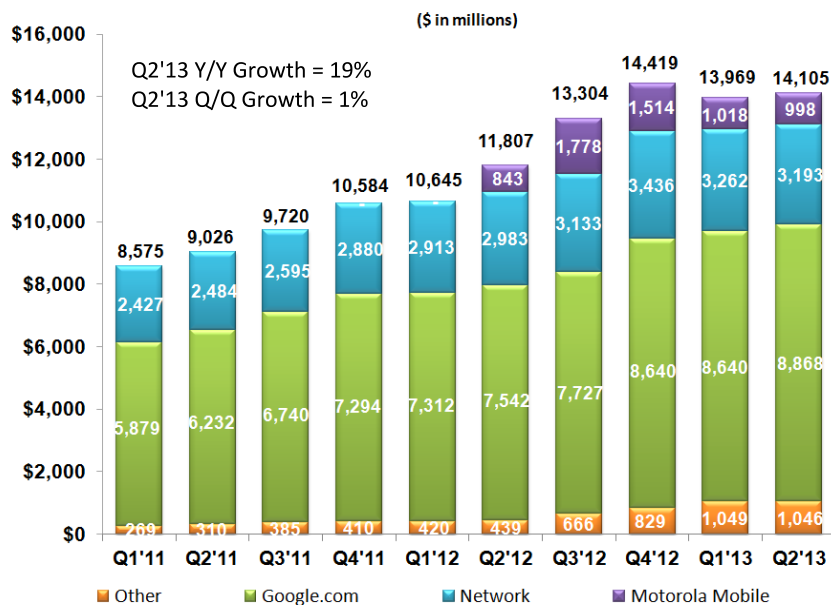
**Continuing to invest in three major areas of focus:**

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

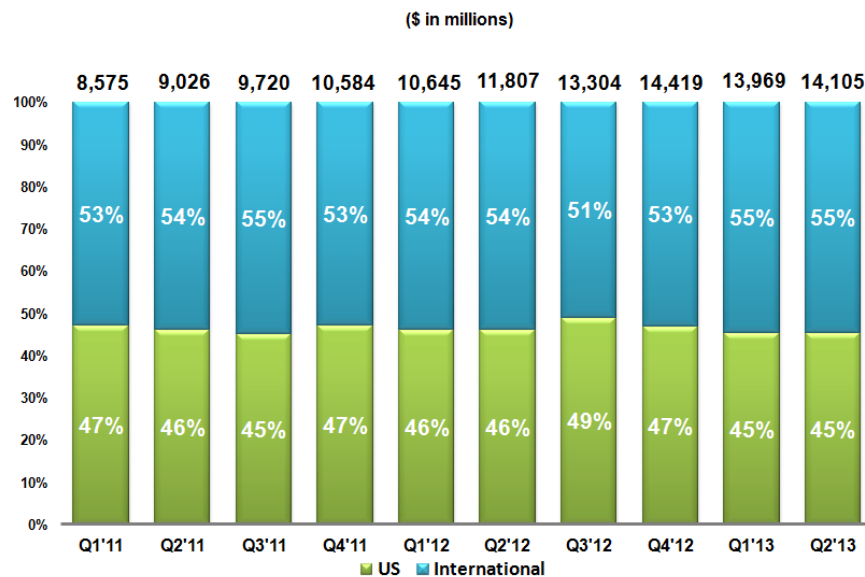
**Our infrastructure continues to be a key strategic area of investment.**

# Consolidated Quarterly Revenues

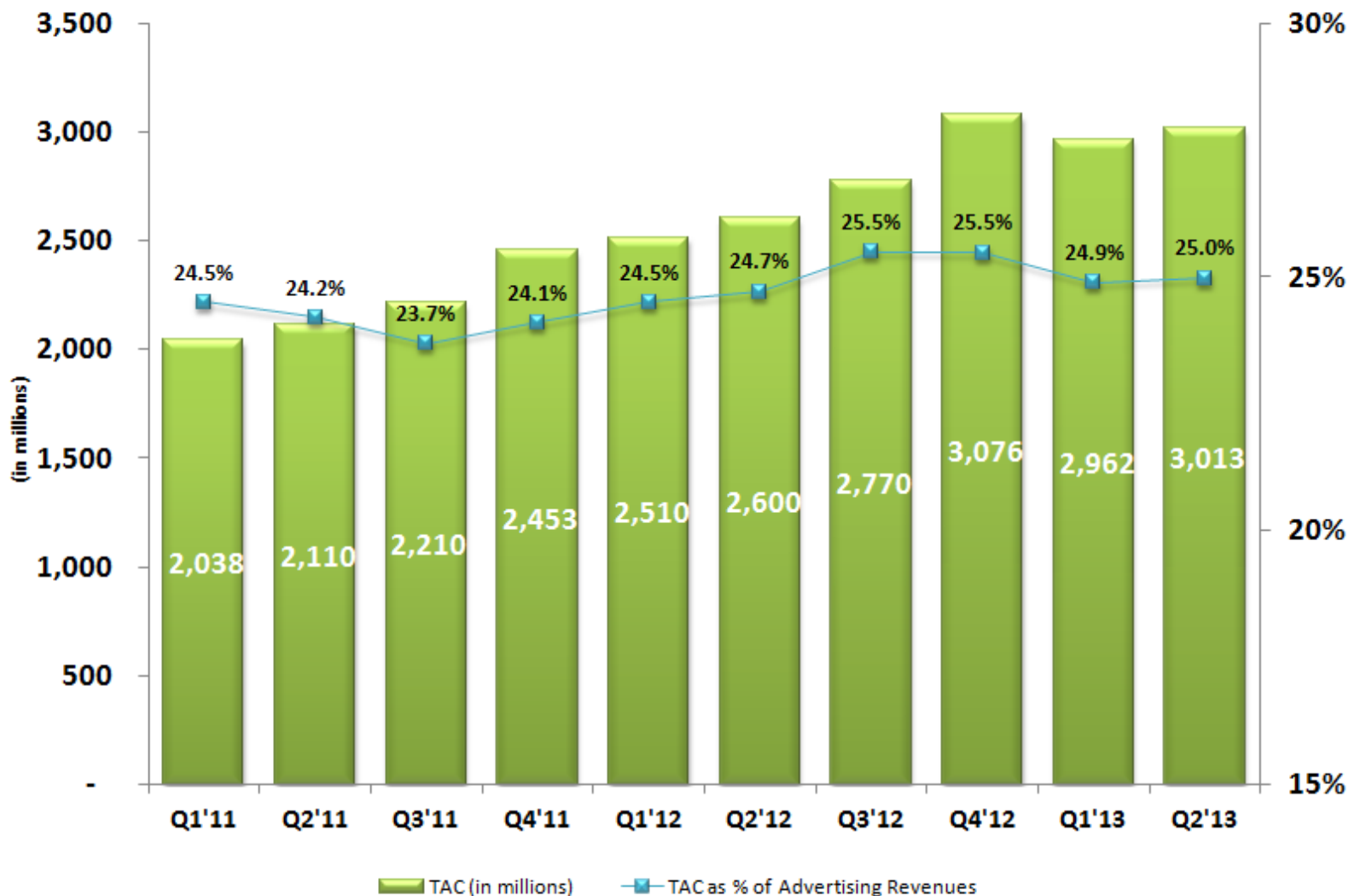
## Consolidated revenues by revenue source



## U.S. vs. International



# Traffic Acquisition Costs



# Consolidated Costs and Expenses

GAAP	Q2 2012		Q1 2013		Q2 2013	
	<i>\$ in millions</i>	<i>As % of revenues</i>	<i>\$ in millions</i>	<i>As % of revenues</i>	<i>\$ in millions</i>	<i>As % of revenues</i>
Cost of Revenues	\$4,677	40%	\$5,944	43%	\$6,063	43%
Research & Development	\$1,538	13%	\$1,837	13%	\$1,987	14%
Sales & Marketing	\$1,413	12%	\$1,586	11%	\$1,735	12%
General & Administrative	\$942	8%	\$1,125	8%	\$1,197	9%
<b>Total Costs &amp; Expenses</b>	<b>\$8,570</b>	<b>73%</b>	<b>\$10,492</b>	<b>75%</b>	<b>\$10,982</b>	<b>78%</b>

Non-GAAP	Q2 2012		Q1 2013		Q2 2013	
	<i>\$ in millions</i>	<i>As % of revenues</i>	<i>\$ in millions</i>	<i>As % of revenues</i>	<i>\$ in millions</i>	<i>As % of revenues</i>
Cost of Revenues	\$4,585	39%	\$5,835	42%	\$5,917	42%
Research & Development	\$1,238	10%	\$1,457	10%	\$1,541	11%
Sales & Marketing	\$1,279	11%	\$1,453	10%	\$1,583	11%
General & Administrative	\$766	6%	\$1,000	8%	\$1,074	8%
<b>Total Costs &amp; Expenses</b>	<b>\$7,868</b>	<b>66%</b>	<b>\$9,745</b>	<b>70%</b>	<b>\$10,115</b>	<b>72%</b>

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

# Profitability

## Consolidated

GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations</b> <i>Operating margin</i>	<b>\$3,237</b> 27%	<b>\$3,477</b> 25%	<b>\$3,123</b> 22%
Net Income from continuing operations	\$2,833	\$3,324	\$2,554
Net Income (loss) from discontinued operations	\$(48)	\$22	\$674
<b>Net Income</b>	<b>\$2,785</b>	<b>\$3,346</b>	<b>\$3,228</b>
EPS (Diluted) - continuing operations	\$8.56	\$9.87	\$7.55
EPS (Diluted) - discontinued operations	\$(0.14)	\$0.07	\$1.99
<b>EPS (Diluted)</b>	<b>\$8.42</b>	<b>\$9.94</b>	<b>\$9.54</b>
Non-GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations</b> <i>Operating margin</i>	<b>\$3,939</b> 33%	<b>\$4,224</b> 30%	<b>\$3,990</b> 28%
<b>Net Income</b>	<b>\$3,362</b>	<b>\$3,899</b>	<b>\$3,233</b>
<b>EPS (Diluted)</b>	<b>\$10.16</b>	<b>\$11.58</b>	<b>\$9.56</b>

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

# Profitability

## Google

GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations (GAAP)</b> <i>Operating margin</i>	<b>\$3,436</b> 31%	<b>\$3,748</b> 29%	<b>\$3,465</b> 26%
Non-GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations (non-GAAP)</b> <i>Operating margin</i>	<b>\$3,988</b> 36%	<b>\$4,403</b> 34%	<b>\$4,208</b> 32%

## Motorola Mobile

GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Loss from Operations (GAAP)</b> <i>Operating margin</i>	<b>\$(199)</b> -24%	<b>\$(271)</b> -27%	<b>\$(342)</b> -34%
Non-GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
<b>Loss from Operations (non-GAAP)</b> <i>Operating margin</i>	<b>\$(49)</b> -6%	<b>\$(179)</b> -18%	<b>\$(218)</b> -22%

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

# Consolidated Free Cash Flow

Non-GAAP <i>(\$ in millions)</i>	Q2 2012 <sup>(1)</sup>	Q1 2013 <sup>(1)</sup>	Q2 2013 <sup>(2)</sup>
Net cash provided by operating activities	\$4,252	\$3,633	\$4,705
Less: Purchases of property and equipment	\$(774)	\$(1,203)	\$(1,611)
<b>Free cash flow</b>	<b>\$3,478</b>	<b>\$2,430</b>	<b>\$3,094</b>

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

<sup>(2)</sup> Including Motorola Home through the date of disposal (April 17, 2013).

## Overview of Q2 2013 OI&E and FX

- In Interest and Other Income, net, we recognized net income of \$247M for Q2.
- In Q2, we recognized \$186M of interest income earned on our investments, \$144M in net realized gains, \$31M of loss on divestiture, and \$19M of interest expense on our long-term debt.
- We recognized \$48M of foreign exchange loss of which \$38M 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 2013 through the second quarter of 2013, our Google revenues in the second quarter of 2013 would have been \$177M higher. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the second quarter of 2012 through the second quarter of 2013, our Google revenues in the second quarter of 2013 would have been \$217M higher.
- FX cash flow hedging program allowed us to recognize a benefit of approximately \$35M to Google international revenue this quarter.

# Google Business - Revenues by Geography

GAAP <i>(\$ in millions)</i>	Q2 2012	Q1 2013	Q2 2013
United States	\$5,005	\$5,836	\$5,896
United Kingdom	\$1,175	\$1,387	\$1,321
Rest of the world	\$4,784	\$5,728	\$5,890
<b>Total Revenues</b>	<b>\$10,964</b>	<b>\$12,951</b>	<b>\$13,107</b>

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

<i>(\$ in millions)</i>	Q2 2012	Q2 2013
UK revenues (GAAP)	<b>\$1,175</b>	<b>\$1,321</b>
exclude:		
a) f/x impact on Q2'13 revenues using Q2'12 (gains)/losses	n/a	48
b) hedging gains	(7)	(24)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,168</b>	<b>\$1,345</b>
Y/Y% (Non-GAAP)		15%

<i>(\$ in millions)</i>	Q2 2012	Q2 2013
ROW revenues (GAAP)	<b>\$4,784</b>	<b>\$5,890</b>
exclude:		
a) f/x impact on Q2'13 revenues using Q2'12 (gains)/losses	n/a	169
b) hedging gains	(74)	(11)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$4,710</b>	<b>\$6,048</b>
Y/Y% (Non-GAAP)		28%

<i>(\$ in millions)</i>	Q1 2012	Q1 2013
UK revenues (GAAP)	<b>\$1,150</b>	<b>\$1,387</b>
exclude:		
a) f/x impact on Q1'13 revenues using Q1'12 (gains)/losses	n/a	5
b) hedging gains	(4)	(20)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,146</b>	<b>\$1,372</b>
Y/Y% (Non-GAAP)		20%

<i>(\$ in millions)</i>	Q1 2012	Q1 2013
ROW revenues (GAAP)	<b>\$4,621</b>	<b>\$5,728</b>
exclude:		
a) f/x impact on Q1'13 revenues using Q1'12 (gains)/losses	n/a	105
b) hedging gains	(33)	(15)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$4,588</b>	<b>\$5,818</b>
Y/Y% (Non-GAAP)		27%

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

(\$ in millions)	Q1 2013	Q2 2013
UK revenues (GAAP)	<b>\$1,387</b>	<b>\$1,321</b>
exclude:		
a) f/x impact on Q2'13 revenues using Q1'13 (gains)/losses	n/a	31
b) hedging gains	(20)	(24)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,367</b>	<b>\$1,328</b>
Q/Q% (Non-GAAP)		-3%

(\$ in millions)	Q4 2012	Q1 2013
UK revenues (GAAP)	<b>\$1,305</b>	<b>\$1,387</b>
exclude:		
a) f/x impact on Q1'13 revenues using Q4'12 (gains)/losses	n/a	27
b) hedging gains	(1)	(20)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,304</b>	<b>\$1,394</b>
Q/Q% (Non-GAAP)		7%

(\$ in millions)	Q1 2013	Q2 2013
ROW revenues (GAAP)	<b>\$5,728</b>	<b>\$5,890</b>
exclude:		
a) f/x impact on Q2'13 revenues using Q1'13 (gains)/losses	n/a	146
b) hedging gains	(15)	(11)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$5,713</b>	<b>\$6,025</b>
Q/Q% (Non-GAAP)		5%

(\$ in millions)	Q4 2012	Q1 2013
ROW revenues (GAAP)	<b>\$5,608</b>	<b>\$5,728</b>
exclude:		
a) f/x impact on Q1'13 revenues using Q4'12 (gains)/losses	n/a	(16)
b) hedging gains	(36)	(15)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$5,572</b>	<b>\$5,697</b>
Q/Q% (Non-GAAP)		2%

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

	Q2 2012		Q1 2013		Q2 2013	
	\$ 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>\$4,677</b>	<b>40%</b>	<b>\$5,944</b>	<b>43%</b>	<b>\$6,063</b>	<b>43%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(92)</i>		<i>\$(109)</i>		<i>\$(146)</i>	
<b>Cost of Revenues (non-GAAP)</b>	<b>\$4,585</b>	<b>39%</b>	<b>\$5,835</b>	<b>42%</b>	<b>\$5,917</b>	<b>42%</b>
<b>Research &amp; Development (GAAP)</b>	<b>\$1,538</b>	<b>13%</b>	<b>\$1,837</b>	<b>13%</b>	<b>\$1,987</b>	<b>14%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(300)</i>		<i>\$(380)</i>		<i>\$(446)</i>	
<b>Research &amp; Development (non-GAAP)</b>	<b>\$1,238</b>	<b>10%</b>	<b>\$1,457</b>	<b>10%</b>	<b>\$1,541</b>	<b>11%</b>
<b>Sales &amp; Marketing (GAAP)</b>	<b>\$1,413</b>	<b>12%</b>	<b>\$1,586</b>	<b>11%</b>	<b>\$1,735</b>	<b>12%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(134)</i>		<i>\$(133)</i>		<i>\$(152)</i>	
<b>Sales &amp; Marketing (non-GAAP)</b>	<b>\$1,279</b>	<b>11%</b>	<b>\$1,453</b>	<b>10%</b>	<b>\$1,583</b>	<b>11%</b>
<b>General &amp; Administrative (GAAP)</b>	<b>\$942</b>	<b>8%</b>	<b>\$1,125</b>	<b>8%</b>	<b>\$1,197</b>	<b>9%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(176)</i>		<i>\$(125)</i>		<i>\$(123)</i>	
<b>General &amp; Administrative (non-GAAP)</b>	<b>\$766</b>	<b>6%</b>	<b>\$1,000</b>	<b>8%</b>	<b>\$1,074</b>	<b>8%</b>
<b>Total Costs &amp; Expenses (GAAP)</b>	<b>\$8,570</b>	<b>73%</b>	<b>\$10,492</b>	<b>75%</b>	<b>\$10,982</b>	<b>78%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(702)</i>		<i>\$(747)</i>		<i>\$(867)</i>	
<b>Total Costs &amp; Expenses (non- GAAP)</b>	<b>\$7,868</b>	<b>66%</b>	<b>\$9,745</b>	<b>70%</b>	<b>\$10,115</b>	<b>72%</b>

<sup>(1)</sup> Percentages based on consolidated revenues of \$11,807 million in Q2 2012, \$13,969 million in Q1 2013 and \$14,105 million in Q2 2013.

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

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

## Consolidated

(\$ in millions)	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations (GAAP)</b>	<b>\$3,237</b>	<b>\$3,477</b>	<b>\$3,123</b>
<i>Operating margin <sup>(1)</sup></i>	27%	25%	22%
<i>Add: Stock-based compensation expense (SBC)</i>	\$561	\$681	\$778
<i>Add: Motorola Mobile restructuring and related charges</i>	\$141	\$66	\$89
<b>Income from Operations (non-GAAP)</b>	<b>\$3,939</b>	<b>\$4,224</b>	<b>\$3,990</b>
<i>Operating margin <sup>(1)</sup></i>	33%	30%	28%
<b>Net Income (GAAP)</b>	<b>\$2,785</b>	<b>\$3,346</b>	<b>\$3,228</b>
<i>Add: Stock-based compensation expense (net of tax) <sup>(2)</sup></i>	\$427	\$532	\$611
<i>Add: Motorola Mobile restructuring and related charges (net of tax) <sup>(3)</sup></i>	102	\$43	\$68
<i>Less: Net income (loss) from discontinued operations</i>	\$48	\$(22)	\$(674)
<b>Net Income (non-GAAP)</b>	<b>\$3,362</b>	<b>\$3,899</b>	<b>\$3,233</b>

<sup>(1)</sup> Percentages based on consolidated revenues of \$11,807 million in Q2 2012, \$13,969 million in Q1 2013, and \$14,105 million in Q2 2013.

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

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

Table 2 - Reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures (cont'd)

## Google

(\$ in millions)	Q2 2012	Q1 2013	Q2 2013
<b>Income from Operations (GAAP)</b>	<b>\$3,436</b>	<b>\$3,748</b>	<b>\$3,465</b>
<i>Operating margin <sup>(1)</sup></i>	31%	29%	26%
<i>Add: Stock-based compensation expense</i>	\$552	\$655	\$743
<b>Income from Operations (non-GAAP)</b>	<b>\$3,988</b>	<b>\$4,403</b>	<b>\$4,208</b>
<i>Operating margin <sup>(1)</sup></i>	36%	34%	32%

## Motorola Mobile

(\$ in millions)	Q2 2012	Q1 2013	Q2 2013
<b>Loss from Operations (GAAP)</b>	<b>\$(199)</b>	<b>\$(271)</b>	<b>\$(342)</b>
<i>Operating margin <sup>(2)</sup></i>	-24%	-27%	-34%
<i>Add: Stock-based compensation expense</i>	\$9	\$26	\$35
<i>Add: Motorola Mobile restructuring and related charges</i>	\$141	\$66	\$89
<b>Loss from Operations (non-GAAP)</b>	<b>\$(49)</b>	<b>\$(179)</b>	<b>\$(218)</b>
<i>Operating margin <sup>(2)</sup></i>	-6%	-18%	-22%

<sup>(1)</sup> Percentages based on Google revenues of \$10,964 million in Q2 2012, \$12,951 million in Q1 2013 and \$13,107 million in Q2 2013.

<sup>(2)</sup> Percentages based on Motorola Mobile revenues of \$843 million in Q2 2012, \$1,018 million in Q1 2013 and \$998 million in Q2 2013.