

**Q1 2013**

**Quarterly Earnings Summary**

# Q1 2013 Highlights

## Financial Highlights:

**Consolidated revenues growth of 31% Y/Y and decline of 3% Q/Q.**

**Consolidated revenues were \$14.0 billion.**

- Google revenues (advertising and other) were \$13.0 billion
  - Google properties revenues increased 18% Y/Y and flat Q/Q
  - Network revenues increased 12% Y/Y and decreased 5% Q/Q
  - Other revenues increased 150% Y/Y and 27% Q/Q
- Motorola Mobile revenues (hardware and other) were \$1.0 billion.
- Consolidated international revenues were \$7.6 billion.

## Operational Highlights:

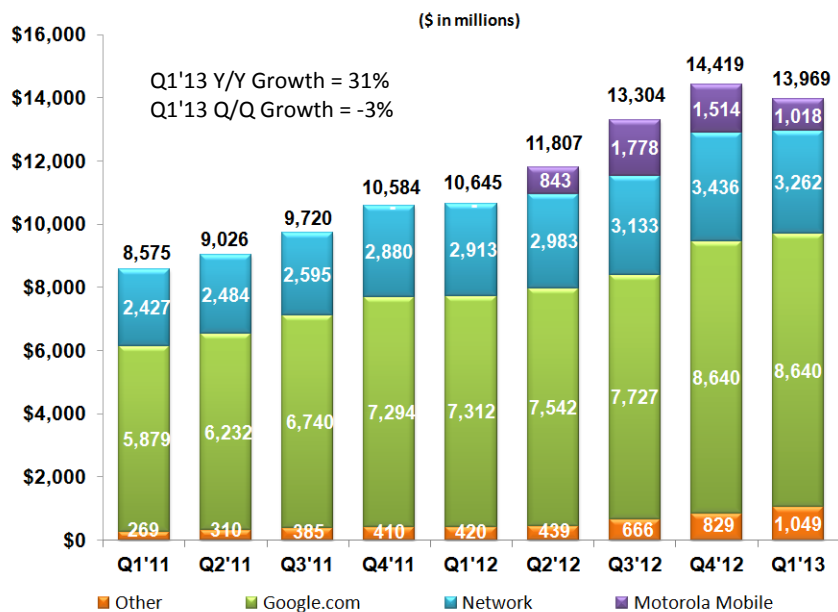
**Strong financial metrics: revenue growth and cash flow.**

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

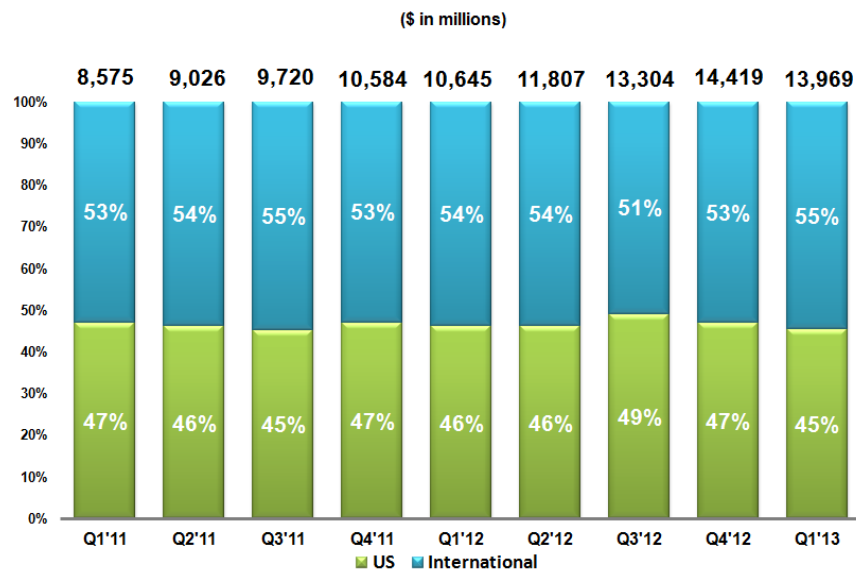
- Core ads: Search and Display advertising
- Businesses demonstrating high consumer success: YouTube, Android, and Chrome
- New businesses where we are investing to drive adoption and innovation: Social, Commerce, and Enterprise

# Consolidated Quarterly Revenues

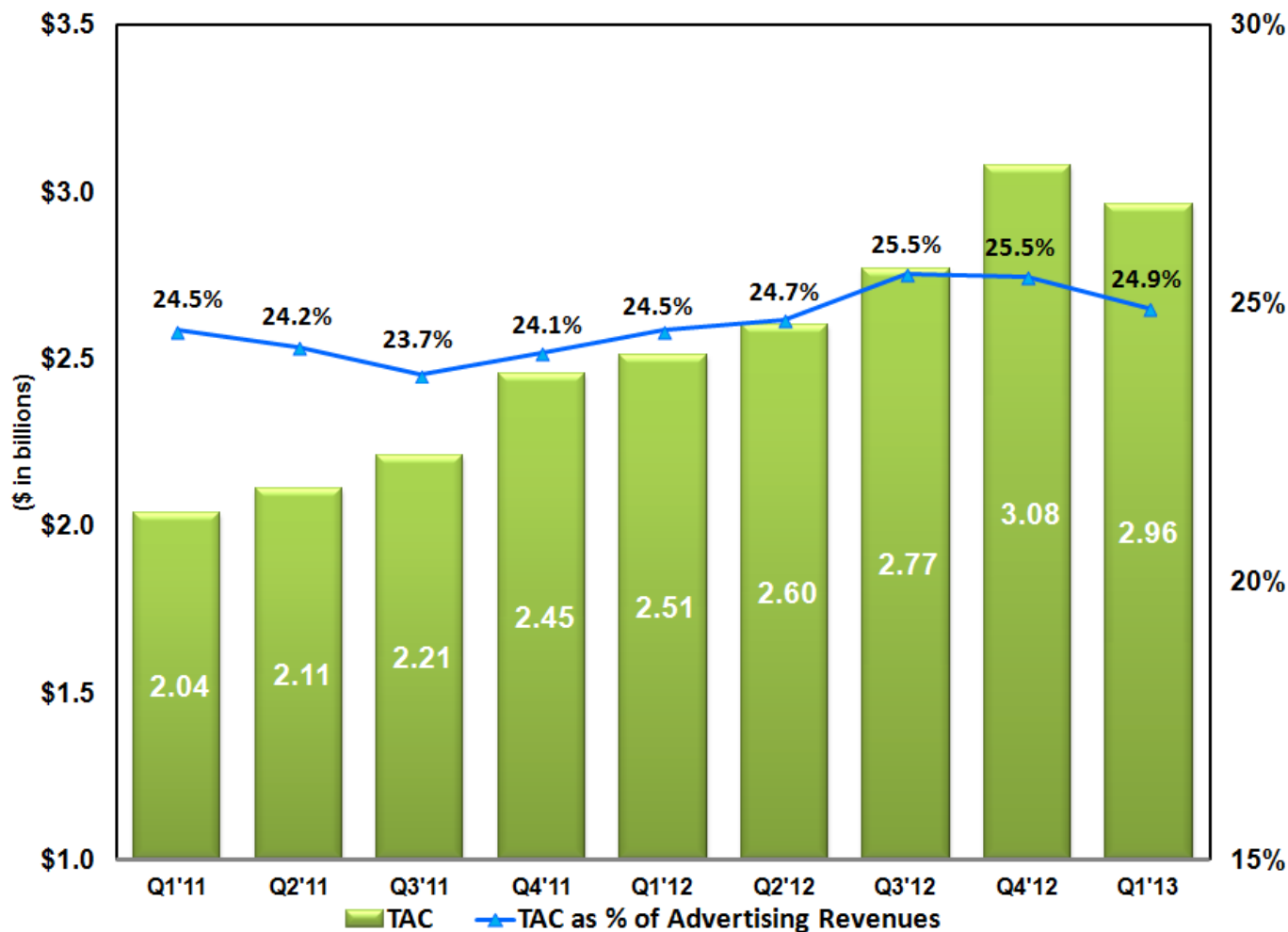
## Consolidated revenues by revenue source



## U.S. vs. International



# Traffic Acquisition Costs



# Consolidated Costs and Expenses

GAAP	Q1 2012		Q4 2012		Q1 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	\$3,789	36%	\$6,213	43%	\$5,944	43%
Research & Development	\$1,441	13%	\$1,935	13%	\$1,837	13%
Sales & Marketing	\$1,269	12%	\$1,751	12%	\$1,586	11%
General & Administrative	\$757	7%	\$1,126	8%	\$1,125	8%
<b>Total Costs &amp; Expenses</b>	<b>\$7,256</b>	<b>68%</b>	<b>\$11,025</b>	<b>76%</b>	<b>\$10,492</b>	<b>75%</b>

Non-GAAP	Q1 2012		Q4 2012		Q1 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	\$3,715	35%	\$6,042	42%	\$5,835	42%
Research & Development	\$1,142	11%	\$1,487	10%	\$1,457	10%
Sales & Marketing	\$1,172	11%	\$1,611	11%	\$1,453	10%
General & Administrative	\$671	6%	\$1,007	7%	\$1,000	8%
<b>Total Costs &amp; Expenses</b>	<b>\$6,700</b>	<b>63%</b>	<b>\$10,147</b>	<b>70%</b>	<b>\$9,745</b>	<b>70%</b>

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

# Profitability

## Consolidated

GAAP <i>(\$ in millions)</i>	Q1 2012	Q4 2012	Q1 2013
<b>Income from Operations</b> <i>Operating margin</i>	<b>\$3,389</b> 32%	<b>\$3,394</b> 24%	<b>\$3,477</b> 25%
Net Income from continuing operations		\$2,907	\$3,324
Net Income (loss) from discontinued operations		\$(21)	\$22
<b>Net Income</b>	<b>\$2,890</b>	<b>\$2,886</b>	<b>\$3,346</b>
EPS (Diluted) - continuing operations		\$8.68	\$9.87
EPS (Diluted) - discontinued operations		\$(0.06)	\$0.07
<b>EPS (Diluted)</b>	<b>\$8.75</b>	<b>\$8.62</b>	<b>\$9.94</b>
Non-GAAP <i>(\$ in millions)</i>	Q1 2012	Q4 2012	Q1 2013
<b>Income from Operations</b> <i>Operating margin</i>	<b>\$3,945</b> 37%	<b>\$4,272</b> 30%	<b>\$4,224</b> 30%
<b>Net Income</b>	<b>\$3,328</b>	<b>\$3,568</b>	<b>\$3,899</b>
<b>EPS (Diluted)</b>	<b>\$10.08</b>	<b>\$10.65</b>	<b>\$11.58</b>

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

# Profitability

## Google

GAAP (\$ in millions)	Q4 2012	Q1 2013
Income from Operations <i>Operating margin</i>	\$3,747 29%	\$3,748 29%
Non-GAAP (\$ in millions)	Q4 2012	Q1 2013
Income from Operations <i>Operating margin</i>	\$4,424 34%	\$4,403 34%

## Motorola Mobile

GAAP (\$ in millions)	Q4 2012	Q1 2013
Loss from Operations <i>Operating margin</i>	\$(353) -23%	\$(271) -27%
Non-GAAP (\$ in millions)	Q4 2012	Q1 2013
Loss from Operations <i>Operating margin</i>	\$(152) -10%	\$(179) -18%

Please refer to supporting 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> )	Q1 2012	Q4 2012 <sup>(1)</sup>	Q1 2013 <sup>(1)</sup>
Net cash provided by operating activities	\$3,694	\$4,669	\$3,633
Less: Purchases of property and equipment	\$(607)	\$(1,020)	\$(1,203)
<b>Free cash flow</b>	<b>\$3,087</b>	<b>\$3,649</b>	<b>\$2,430</b>

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



## Overview of Q1 2013 OI&E and FX

- In Interest and Other Income, Net, we recognized net income of \$134M for Q1.
- In Q1, we recognized \$183M of interest income earned on our investments, \$60M in net realized gains, \$21M of interest expense on our long-term debt.
- We recognized \$70M of foreign exchange loss of which \$51M 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 2012 through the first quarter of 2013, our Google revenues in the first quarter of 2013 would have been \$11M higher. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the first quarter of 2012 through the first quarter of 2013, our Google revenues in the first quarter of 2013 would have been \$110M higher.
- In addition, our 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> )	Q1 2012	Q4 2012	Q1 2013
United States	\$4,874	\$5,992	\$5,836
United Kingdom	\$1,150	\$1,305	\$1,387
Rest of the world	\$4,621	\$5,608	\$5,728
<b>Total Revenues</b>	<b>\$10,645</b>	<b>\$12,905</b>	<b>\$12,951</b>

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

<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%

<i>(\$ in millions)</i>	Q4 2011	Q4 2012
UK revenues (GAAP)	<b>\$1,064</b>	<b>\$1,305</b>
exclude:		
a) f/x impact on Q4'12 revenues using Q4'11 (gains)/losses	n/a	(16)
b) hedging gains	(6)	(1)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,058</b>	<b>\$1,288</b>
Y/Y% (Non-GAAP)		22%

<i>(\$ in millions)</i>	Q4 2011	Q4 2012
ROW revenues (GAAP)	<b>\$4,540</b>	<b>\$5,608</b>
exclude:		
a) f/x impact on Q4'12 revenues using Q4'11 (gains)/losses	n/a	209
b) hedging gains	(19)	(36)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$4,521</b>	<b>\$5,781</b>
Y/Y% (Non-GAAP)		28%

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

(\$ 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)	Q3 2012	Q4 2012
UK revenues (GAAP)	<b>\$1,216</b>	<b>\$1,305</b>
exclude:		
a) f/x impact on Q4'12 revenues using Q3'12 (gains)/losses	n/a	(27)
b) hedging gains	(6)	(1)
UK revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$1,210</b>	<b>\$1,277</b>
Q/Q% (Non-GAAP)		6%

(\$ 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%

(\$ in millions)	Q3 2012	Q4 2012
ROW revenues (GAAP)	<b>\$4,894</b>	<b>\$5,608</b>
exclude:		
a) f/x impact on Q4'12 revenues using Q3'12 (gains)/losses	n/a	(103)
b) hedging gains	(56)	(36)
ROW revenues excluding f/x and hedging impact (Non-GAAP)	<b>\$4,838</b>	<b>\$5,469</b>
Q/Q% (Non-GAAP)		13%

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

	Q1 2012		Q4 2012		Q1 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>\$3,789</b>	<b>36%</b>	<b>\$6,213</b>	<b>43%</b>	<b>\$5,944</b>	<b>43%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(74)</i>		<i>\$(171)</i>		<i>\$(109)</i>	
<b>Cost of Revenues (non-GAAP)</b>	<b>\$3,715</b>	<b>35%</b>	<b>\$6,042</b>	<b>42%</b>	<b>\$5,835</b>	<b>42%</b>
<b>Research &amp; Development (GAAP)</b>	<b>\$1,441</b>	<b>13%</b>	<b>\$1,935</b>	<b>13%</b>	<b>\$1,837</b>	<b>13%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(299)</i>		<i>\$(448)</i>		<i>\$(380)</i>	
<b>Research &amp; Development (non-GAAP)</b>	<b>\$1,142</b>	<b>11%</b>	<b>\$1,487</b>	<b>10%</b>	<b>\$1,457</b>	<b>10%</b>
<b>Sales &amp; Marketing (GAAP)</b>	<b>\$1,269</b>	<b>12%</b>	<b>\$1,751</b>	<b>12%</b>	<b>\$1,586</b>	<b>11%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(97)</i>		<i>\$(140)</i>		<i>\$(133)</i>	
<b>Sales &amp; Marketing (non-GAAP)</b>	<b>\$1,172</b>	<b>11%</b>	<b>\$1,611</b>	<b>11%</b>	<b>\$1,453</b>	<b>10%</b>
<b>General &amp; Administrative (GAAP)</b>	<b>\$757</b>	<b>7%</b>	<b>\$1,126</b>	<b>8%</b>	<b>\$1,125</b>	<b>8%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(86)</i>		<i>\$(119)</i>		<i>\$(125)</i>	
<b>General &amp; Administrative (non-GAAP)</b>	<b>\$671</b>	<b>6%</b>	<b>\$1,007</b>	<b>7%</b>	<b>\$1,000</b>	<b>8%</b>
<b>Total Costs &amp; Expenses (GAAP)</b>	<b>\$7,256</b>	<b>68%</b>	<b>\$11,025</b>	<b>76%</b>	<b>\$10,492</b>	<b>75%</b>
<i>Less: Non-GAAP adjustments <sup>(2)</sup></i>	<i>\$(556)</i>		<i>\$(878)</i>		<i>\$(747)</i>	
<b>Total Costs &amp; Expenses (non- GAAP)</b>	<b>\$6,700</b>	<b>63%</b>	<b>\$10,147</b>	<b>70%</b>	<b>\$9,745</b>	<b>70%</b>

<sup>(1)</sup> Percentages based on consolidated revenues of \$10,645 million in Q1 2012, \$14,419 million in Q4 2012 and \$13,969 million in Q1 2013.

<sup>(2)</sup> Includes stock-based compensation expense and restructuring and related charges for Motorola Mobile in Q4 2012 and Q1 2013.

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

## Consolidated

(\$ in millions)	Q1 2012	Q4 2012	Q1 2013
<b>Income from Operations (GAAP)</b>	<b>\$3,389</b>	<b>\$3,394</b>	<b>\$3,477</b>
<i>Operating margin <sup>(1)</sup></i>	32%	24%	25%
<i>Add: Stock-based compensation expense (SBC)</i>	\$556	\$700	\$681
<i>Add: Motorola Mobile restructuring and related charges</i>	-	\$178	\$66
<b>Income from Operations (non-GAAP)</b>	<b>\$3,945</b>	<b>\$4,272</b>	<b>\$4,224</b>
<i>Operating margin <sup>(1)</sup></i>	37%	30%	30%
<b>Net Income (GAAP)</b>	<b>\$2,890</b>	<b>\$2,886</b>	<b>\$3,346</b>
<i>Add: Stock-based compensation expense (net of tax) <sup>(2)</sup></i>	\$438	\$548	\$532
<i>Add: Motorola Mobile restructuring and related charges (net of tax) <sup>(3)</sup></i>	-	\$113	\$43
<i>Less: Net income (loss) from discontinued operations</i>	-	\$21	\$(22)
<b>Net Income (non-GAAP)</b>	<b>\$3,328</b>	<b>\$3,568</b>	<b>\$3,899</b>

<sup>(1)</sup> Percentages based on consolidated revenues of \$10,645 million in Q1 2012, \$14,419 million in Q4 2012 and \$13,969 million in Q1 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 other special items 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

<i>(\$ in millions)</i>	Q4 2012	Q1 2013
<b>Income from Operations (GAAP)</b> <i>Operating margin <sup>(1)</sup></i>	<b>\$3,747</b> 29%	<b>\$3,748</b> 29%
<i>Add: Stock-based compensation expense</i>	\$677	\$655
<b>Income from Operations (non-GAAP)</b> <i>Operating margin <sup>(1)</sup></i>	<b>\$4,424</b> 34%	<b>\$4,403</b> 34%

## Motorola Mobile

<i>(\$ in millions)</i>	Q4 2012	Q1 2013
<b>Loss from Operations (GAAP)</b> <i>Operating margin <sup>(2)</sup></i>	<b>\$(353)</b> -23%	<b>\$(271)</b> -27%
<i>Add: Stock-based compensation expense</i>	\$23	\$26
<i>Add: Motorola Mobile restructuring and related charges</i>	\$178	\$66
<b>Loss from Operations (non-GAAP)</b> <i>Operating margin <sup>(2)</sup></i>	<b>\$(152)</b> -10%	<b>\$(179)</b> -18%

<sup>(1)</sup> Percentages based on Google revenues of \$12,905 million in Q4 2012 and \$12,951 million in Q1 2013.

<sup>(2)</sup> Percentages based on Motorola Mobile revenues of \$1,514 million in Q4 2012 and \$1,018 million in Q1 2013.