

Google Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and par value amounts which are reflected in thousands,
and par value per share amounts)

	As of December 31, 2013	As of December 31, 2014 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,898	\$ 18,347
Marketable securities	39,819	46,048
Total cash, cash equivalents, and marketable securities (including securities loaned of \$5,059 and \$4,058)	58,717	64,395
Accounts receivable, net of allowance of \$631 and \$225	8,882	9,383
Receivable under reverse repurchase agreements	100	875
Deferred income taxes, net	1,526	1,322
Income taxes receivable, net	408	1,298
Prepaid revenue share, expenses and other assets	3,253	3,412
Total current assets	72,886	80,685
Prepaid revenue share, expenses and other assets, non-current	1,976	3,280
Non-marketable equity investments	1,976	3,079
Property and equipment, net	16,524	23,883
Intangible assets, net	6,066	4,607
Goodwill	11,492	15,599
Total assets	<u>\$ 110,920</u>	<u>\$ 131,133</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,453	\$ 1,715
Short-term debt	3,009	2,009
Accrued compensation and benefits	2,502	3,069
Accrued expenses and other current liabilities	3,755	4,434
Accrued revenue share	1,729	1,952
Securities lending payable	1,374	2,778
Deferred revenue	1,062	752
Income taxes payable, net	24	96
Total current liabilities	15,908	16,805
Long-term debt	2,236	3,228
Deferred revenue, non-current	139	104
Income taxes payable, non-current	2,638	3,407
Deferred income taxes, net, non-current	1,947	1,971
Other long-term liabilities	743	1,118
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0

Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 671,664 (Class A 279,325, Class B 56,507, Class C 335,832) and par value of \$672 (Class A \$279, Class B \$57, Class C \$336) and 680,172 (Class A 286,560, Class B 53,213, Class C 340,399) and par value of \$680 (Class A \$287, Class B \$53, Class C \$340) shares issued and outstanding

	25,922	28,767
Accumulated other comprehensive income	125	27
Retained earnings	61,262	75,706
Total stockholders' equity	<u>87,309</u>	<u>104,500</u>
Total liabilities and stockholders' equity	<u>\$ 110,920</u>	<u>\$ 131,133</u>

Google Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share amounts which are reflected in thousands and per share amounts)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2014	2013	2014
	(unaudited)		(unaudited)	
Revenues	\$ 15,707	\$ 18,103	\$ 55,519	\$ 66,001
Costs and expenses:				
Cost of revenues ⁽¹⁾	6,253	6,921	21,993	25,691
Research and development ⁽¹⁾	1,933	2,813	7,137	9,832
Sales and marketing ⁽¹⁾	1,908	2,377	6,554	8,131
General and administrative ⁽¹⁾	1,184	1,593	4,432	5,851
Total costs and expenses	11,278	13,704	40,116	49,505
Income from operations	4,429	4,399	15,403	16,496
Interest and other income, net	112	128	496	763
Income from continuing operations before income taxes	4,541	4,527	15,899	17,259
Provision for income taxes	659	737	2,552	3,331
Net income from continuing operations	3,882	3,790	13,347	13,928
Net income (loss) from discontinued operations	(506)	967	(427)	516
Net income	\$ 3,376	\$ 4,757	\$ 12,920	\$ 14,444
Net income (loss) per share - basic:				
Continuing operations	\$ 5.80	\$ 5.58	\$ 20.05	\$ 20.61
Discontinued operations	(0.76)	1.43	(0.64)	0.76
Net income (loss) per share - basic	\$ 5.04	\$ 7.01	\$ 19.41	\$ 21.37
Net income (loss) per share - diluted:				
Continuing operations	\$ 5.69	\$ 5.50	\$ 19.70	\$ 20.27
Discontinued operations	(0.74)	1.41	(0.63)	0.75
Net income (loss) per share - diluted	\$ 4.95	\$ 6.91	\$ 19.07	\$ 21.02
Shares used in per share calculation - basic	669,672	678,943	665,692	675,935
Shares used in per share calculation - diluted	682,006	688,491	677,618	687,070
⁽¹⁾ Includes stock-based compensation expense as follows:				
Cost of revenues	\$ 127	\$ 171	\$ 469	\$ 535
Research and development	466	631	1,641	2,200
Sales and marketing	154	213	552	715
General and administrative	126	186	465	725
Discontinued operations	\$ 29	\$ (14)	\$ 216	\$ 104
Total stock-based compensation expense	\$ 902	\$ 1,187	\$ 3,343	\$ 4,279

Google Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2014	2013	2014
	(unaudited)			(unaudited)
Operating activities				
Net income	\$ 3,376	\$ 4,757	\$ 12,920	\$ 14,444
Adjustments:				
Depreciation expense and loss on disposal of property and equipment	757	1,010	2,781	3,523
Amortization and impairment of intangible and other assets	279	257	1,158	1,456
Stock-based compensation expense	902	1,187	3,343	4,279
Excess tax benefits from stock-based award activities	(179)	(181)	(481)	(648)
Deferred income taxes	(562)	394	(437)	(104)
Loss (gain) on divestiture of businesses	5	(740)	(700)	(740)
Gain on equity interest	0	0	0	(126)
Gain on sale of non-marketable equity investments	0	(20)	0	(159)
Other	62	42	106	87
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(853)	(1,151)	(1,307)	(1,641)
Income taxes, net	480	(68)	401	283
Prepaid revenue share, expenses and other assets	(735)	(47)	(930)	459
Accounts payable	320	549	605	436
Accrued expenses and other liabilities	983	341	713	757
Accrued revenue share	246	209	254	245
Deferred revenue	157	(175)	233	(175)
Net cash provided by operating activities	5,238	6,364	18,659	22,376
Investing activities				
Purchases of property and equipment	(2,255)	(3,551)	(7,358)	(10,959)
Purchases of marketable securities	(13,698)	(13,118)	(45,444)	(56,310)
Maturities and sales of marketable securities	15,073	14,665	38,314	51,315
Investments in non-marketable equity investments	(98)	(691)	(569)	(1,227)
Cash collateral related to securities lending	(519)	(626)	(299)	1,403
Investments in reverse repurchase agreements	0	(50)	600	(775)
Proceeds from divestiture of businesses	0	386	2,525	386
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(120)	(256)	(1,448)	(4,888)
Net cash used in investing activities	(1,617)	(3,241)	(13,679)	(21,055)
Financing activities				
Net payments related to stock-based award activities	(144)	(521)	(781)	(2,069)
Excess tax benefits from stock-based award activities	179	181	481	648
Proceeds from issuance of debt, net of costs	2,418	2,458	10,768	11,625
Repayments of debt	(2,421)	(2,462)	(11,325)	(11,643)
Net cash provided by (used in) financing activities	32	(344)	(857)	(1,439)

Effect of exchange rate changes on cash and cash equivalents	3	(197)	(3)	(433)
Net increase (decrease) in cash and cash equivalents	3,656	2,582	4,120	(551)
Cash and cash equivalents at beginning of period	15,242	15,605	14,778	18,898
Reclassification of assets previously held for sale	0	160	0	0
Cash and cash equivalents at end of period	<u>\$ 18,898</u>	<u>\$ 18,347</u>	<u>\$ 18,898</u>	<u>\$ 18,347</u>

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

The following table presents certain non-GAAP consolidated results before certain items (in millions, except share amounts which are reflected in thousands and per share amounts, unaudited):

	Three Months Ended December 31, 2013					Three Months Ended December 31, 2014				
	GAAP Actual	Operating Margin (a)	Adjustments	Non-GAAP Results	Non-GAAP Operating Margin (e)	GAAP Actual	Operating Margin (a)	Adjustments	Non-GAAP Results	Non-GAAP Operating Margin (e)
			\$ 873 ^(b)					\$ 1,201 ^(b)		
Income from operations	\$ 4,429	28.2%	\$ 873	\$ 5,302	33.8%	\$ 4,399	24.3%	\$ 1,201	\$ 5,600	30.9%
			\$ 873 ^(b)					\$ 1,201 ^(b)		
			(184) ^(c)					(255) ^(c)		
			506 ^(d)					(967) ^(d)		
Net income	\$ 3,376		\$ 1,195	\$ 4,571		\$ 4,757		\$ (21)	\$ 4,736	
Net income per share - diluted	\$ 4.95			\$ 6.70		\$ 6.91			\$ 6.88	
Shares used in per share calculation - diluted	682,006			682,006		688,491			688,491	

(a) Operating margin is defined as income from operations divided by revenues.

(b) To eliminate stock-based compensation expense from continuing operations.

(c) To eliminate income tax effects related to expense noted in (b).

(d) To eliminate net loss (income) from discontinued operations.

(e) Non-GAAP operating margin is defined as non-GAAP income from operations divided by revenues.

Reconciliation from net cash provided by operating activities to free cash flow (in millions, unaudited):

	Three Months Ended December 31, 2014
Net cash provided by operating activities	\$ 6,364
Less: purchases of property and equipment	(3,551)
Free cash flow	<u>\$ 2,813</u>
Net cash used in investing activities ^(a)	<u>\$ (3,241)</u>
Net cash used in financing activities	<u>\$ (344)</u>

^(a) Includes purchases of property and equipment.

Reconciliation from GAAP international revenues to non-GAAP international revenues (in millions, unaudited):

	Three Months Ended December 31, 2014 <i>(using Q4'13's FX rates)</i>	Three Months Ended December 31, 2014 <i>(using Q3'14's FX rates)</i>
United Kingdom revenues (GAAP)	\$ 1,657	\$ 1,657
Exclude foreign exchange impact on Q4'14 revenues using Q4'13 rates	12	N/A
Exclude foreign exchange impact on Q4'14 revenues using Q3'14 rates	N/A	78
Exclude hedging gains recognized in Q4'14	(3)	(3)
United Kingdom revenues excluding foreign exchange and hedging impact (Non-GAAP)	<u>\$ 1,666</u>	<u>\$ 1,732</u>
Rest of the world revenues (GAAP)	\$ 8,568	\$ 8,568
Exclude foreign exchange impact on Q4'14 revenues using Q4'13 rates	604	N/A
Exclude foreign exchange impact on Q4'14 revenues using Q3'14 rates	N/A	463
Exclude hedging gains recognized in Q4'14	(145)	(145)
Rest of the world revenues excluding foreign exchange and hedging impact (Non-GAAP)	<u>\$ 9,027</u>	<u>\$ 8,886</u>

The following table presents our revenues by revenue source (in millions):

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2013	2014	2013	2014
	(unaudited)		(unaudited)	
Advertising revenues:				
Google websites	\$ 10,538	\$ 12,429	\$ 37,422	\$ 45,085
Google Network Members' websites	3,522	3,720	13,125	13,971
Total advertising revenues	14,060	16,149	50,547	59,056
Other revenues	1,647	1,954	4,972	6,945
Revenues	<u>\$ 15,707</u>	<u>\$ 18,103</u>	<u>\$ 55,519</u>	<u>\$ 66,001</u>

The following table presents our revenues, by revenue source, as a percentage of revenues:

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2013	2014	2013	2014
	(unaudited)		(unaudited)	
Advertising revenues:				
Google websites	67%	69%	67%	68%
Google Network Members' websites	23%	20%	24%	21%
Total advertising revenues	90%	89%	91%	89%
Other revenues	10%	11%	9%	11%
Revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>