

Registered number: 03977902

**Google UK Limited**

**Annual report and financial statements  
for the year ended 31 December 2010**

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## Google UK Limited

### Company Information

<b>Directors</b>	John Herlihy Graham Law Lloyd Hartley Martin John Kent Walker
<b>Company secretary</b>	TJG Secretaries Limited
<b>Company number</b>	03977902
<b>Registered office</b>	Belgrave House 76 Buckingham Palace Road London SW1W 9TQ
<b>Auditors</b>	Ernst & Young Harcourt Centre Harcourt Street Dublin 2 Ireland
<b>Bankers</b>	Citibank plc 336 Strand London WC2R 1HB
<b>Solicitors</b>	Taylor Wessing LLP 5 New Street Square London EC4A 3TW

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# **Google UK Limited**

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# Google UK Limited

## Directors' report for the year ended 31 December 2010

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2010

### Principal activity and review of business

The principal activity of the company during the year was the provision of marketing services to Google Ireland Limited and the provision of research and development services to Google Inc

In 2008, the company vacated a property resulting in the need for an onerous lease provision of which the balance at the year end is £2,210,453 (2009 £3,499,910) as detailed in note 18

There were no other significant new activities that had a material impact on the company's results during the financial year ended 31 December 2010

There were no new products and services introduced during the financial year ended 31 December 2010 that had a material impact on the financial statements

### Principal risks and uncertainties facing the business

As a provider of marketing and research and development services to Google Ireland Limited and Google Inc, the company's principal risks and uncertainties relate to scaling back its operations due to a reduction in demand for its services. The demand for its services would be impacted by the principal risks and uncertainties faced by Google Ireland Limited and Google Inc, namely

- Competition from other internet companies, including web search providers, internet access providers, internet advertising companies and destination websites that may also bundle their services with internet access
- Competition from traditional media companies which could harm its operating results
- Revenue is generated almost entirely from advertising, and the reduction in spending, or loss of advertisers could seriously harm the business
- Google has a short operating history and a relatively new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate future prospects and may increase the risk that the group will not continue to be successful
- New technologies could block advertisements, which would harm the business
- The business depends on a strong brand, and if the company is unable to maintain and enhance the brand, the ability to expand the base of users, advertisers and Google Network members will be impaired and the business and operating results will be harmed

### Key performance indicators

Turnover increased from £169,486,065 to £239,486,082 in 2010, an increase of £70,000,017. Administrative expenses (excluding exceptional items) increased from £181,819,850 to £262,490,783 an increase of £80,670,933 in 2010. These increases relate to a higher demand for the company's marketing services due to the significant rise in employment and other costs which impact on the Cost Plus Arrangement.

The profit and loss account and balance sheet are set out on pages 7 and 8, respectively. The loss for the financial year, amounting to £27,056,378 has been deducted from reserves.

# **Google UK Limited**

## **Directors' report for the year ended 31 December 2010**

### **Research and development activities**

The company continued to provide research and development services to its parent company, Google Inc. During the year, the company spent £33,250,808 (2009: £21,313,771) on research and development. Such expenses may fall into the following categories: research, development engineering and fixes or revisions.

### **Future developments**

There are no future changes anticipated in the business of the company at this time.

### **Results and dividends**

The loss for the year, after taxation, amounted to £27,056,378 (2009: £9,656,717).

The directors do not recommend the payment of a dividend (2009: £nil).

### **Charitable donations**

During the year the company made no charitable donations (2009: £28,237).

### **Directors**

The directors who served during the year and up to the date of this report are as follows:

John Herlihy  
Graham Law  
Lloyd Hartley Martin  
John Kent Walker

### **Qualifying third party indemnity provisions**

A qualifying third party indemnity provision as defined in section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, a directors' and officers' liability insurance policy was maintained by the Google Inc. group throughout the financial year.

# **Google UK Limited**

## **Directors' report for the year ended 31 December 2010**

### **Employees**

The company has an active programme for informing and involving its employees. In addition to many informal practices, the company operates active Social Clubs and Culture Clubs across the company's sites which comprise representatives of the workforce and management. Regular briefings and other opportunities for dialogue with senior management are conducted for employees. The company also has an intranet website which it updates regularly with company and industry news.

The company is committed to the recruitment and retention of first-rate people, and therefore offers a highly competitive compensation and benefits package. It believes in rewarding performance and encouraging employees to contribute to and share in the success and growth of the business. Consequently, the company operates a Share Incentive Plan and Cash Bonus Plan that rewards all employees for the success of the company and their own personal performance.

The company is an equal opportunity employer. Applications for employment are considered without regard to gender, race, age, nationality or disability, taking into account the abilities of the individual and the requirements of the vacant position. All employees enjoy the same benefits, career development, promotion prospects and comprehensive training. The company continues to offer employment and training to its employees who have become disabled whilst being employed by the company.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

# **Google UK Limited**

## **Directors' report for the year ended 31 December 2010**

### **Disclosure of information to auditors**

The directors confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware. The directors also confirm they have each taken all the steps they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of the information.

### **Independent auditors**

In accordance with Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and Ernst & Young will therefore continue in office.

### **By order of the board**

A handwritten signature in black ink, appearing to be 'G. Law', written over a horizontal line.

**Graham Law**  
**Director**  
8 July 2011

## **Independent auditor's report to the members of Google UK Limited**

We have audited the financial statements of Google UK Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements



**Google UK Limited**

## **Independent auditor's report to the members of Google UK Limited**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

*Ernst & Young*

Keith Jess (Senior statutory auditor)  
for and on behalf of  
**Ernst & Young**  
Statutory Auditor  
Dublin

Date 11 July 2011

## Google UK Limited

### Profit and loss account for the year ended 31 December 2010

	Note	2010 £	2009 £
<b>Turnover</b>	2	<b>239,486,082</b>	169,486,065
Administrative expenses excluding exceptional items		<b>(262,490,783)</b>	(181,819,850)
Exceptional administrative expenses	3	-	832,941
Administrative expenses		<b>(262,490,783)</b>	(180,986,909)
<b>Operating loss</b>	4	<b>(23,004,701)</b>	(11,500,844)
Income from fixed asset investments	13	<b>760,026</b>	-
Interest receivable and similar income	6	<b>155,706</b>	43,790
Interest payable and similar charges	7	-	(14,682)
<b>Loss on ordinary activities before taxation</b>		<b>(22,088,969)</b>	(11,471,736)
Tax on loss on ordinary activities	11	<b>(4,967,409)</b>	1,815,019
<b>Loss for the financial year</b>	20	<b>(27,056,378)</b>	(9,656,717)

All above activities relate to continuing operations

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

There are no material differences between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalent

# Google UK Limited

Registered number. 03977902

## Balance sheet as at 31 December 2010

	Note	£	2010 £	£	2009 £
<b>Fixed assets</b>					
Tangible assets	12		11,775,844		10,201,934
Investments	13		-		-
			<u>11,775,844</u>		<u>10,201,934</u>
<b>Current assets</b>					
Debtors	14	27,697,600		24,671,518	
Cash at bank		84,002,992		65,917,206	
		<u>111,700,592</u>		<u>90,588,724</u>	
<b>Creditors</b> amounts falling due within one year	15	(69,042,987)		(59,419,300)	
<b>Net current assets</b>			<u>42,657,605</u>		<u>31,169,424</u>
<b>Total assets less current liabilities</b>			<u>54,433,449</u>		<u>41,371,358</u>
<b>Creditors</b> amounts falling due after more than one year	16		(227,745)		-
<b>Provisions for liabilities</b>					
Other provisions	18		(2,892,176)		(3,499,910)
<b>Net assets</b>			<u>51,313,528</u>		<u>37,871,448</u>
<b>Capital and reserves</b>					
Called up share capital	19		1,000		1,000
Share option reserve	20		111,073,818		70,575,360
Profit and loss account - deficit	20		(59,761,290)		(32,704,912)
<b>Shareholder's funds</b>	21		<u>51,313,528</u>		<u>37,871,448</u>

The financial statements on pages 7 to 24 were approved by the board of directors on 8 July 2011 and were signed on its behalf by

Graham Law  
Director



# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 1. Principal accounting policies

#### 1.1 Basis of preparation of financial statements

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The principal accounting policies, which have been applied consistently in the current and previous financial year, are set out below.

#### 1.2 Consolidation

The financial statements contain information about Google UK Limited as an individual company. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the financial statements of its ultimate parent undertaking, Google Inc, a company incorporated in Delaware, USA.

#### 1.3 Cash flow statement

The company, which is a wholly owned subsidiary, has taken advantage of the exemption in Financial Reporting Standard 1 from the requirement to produce a cash flow statement.

#### 1.4 Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Leasehold improvements	-	over the life of the lease
Computer equipment and software	-	50% straight line
Fixtures, fittings and equipment	-	20% straight line
Production and network equipment	-	33% straight line
Assets in the course of construction	-	no depreciation as assets not in use

#### 1.5 Investments

Investments are stated at cost less any provision for impairment.

#### 1.6 Turnover

Turnover represents the amounts, excluding value added tax, recharged during the year to Google Inc and Google Ireland Limited. The company recognises revenue on a cost plus basis, based on the level of rechargeable expenses incurred during the year.

#### 1.7 Pensions

The company operates a defined contribution pension scheme. The expected cost of providing pensions to employees is charged to the profit and loss account as incurred over the period of employment of pensionable employees. The cost is calculated, with the benefit of advice from an independent actuary, at what is expected to be a reasonably stable proportion of pensionable pay.

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 1 Principal accounting policies (continued)

#### 1.8 Taxation

The charge for taxation is based on the loss for the year

Deferred tax is provided on timing differences to the extent that it is expected to become payable/recoverable in the foreseeable future and any amount not provided for is disclosed as a contingent liability/asset. Deferred tax arises in respect of items where there is a timing difference between the treatment for accounting purposes and the treatment for taxation purposes. Deferred tax balances are not discounted.

#### 1.9 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date and revenues, costs and non monetary assets at the exchange rates ruling at the transaction date. Profits and losses arising from foreign currency translations and on settlement of amounts receivable and payable in foreign currency are dealt with through the profit and loss account. Gains and losses for intercompany transactions and translations are borne by other group companies.

#### 1 10 Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term. Lease premiums and similar incentives that are received or paid are treated as deferred or accrued income and released to the profit and loss account on a straight line basis over the lease term or, where applicable, over the period to the next rent review.

#### 1 11 Research and development

Research and development expenditure is expensed to the profit and loss account in the year in which it is incurred.

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 1. Principal accounting policies (continued)

#### 1.12 Share based payments

##### *Equity settled transactions*

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity (profit and loss account).

Where the terms of an equity settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

##### *Cash settled transactions*

The company does not have share based payment resulting from cash settled transactions.

### 2 Turnover

The total turnover of the company for the year has been derived from its principal activity.

#### Geographical market

	2010 £	2009 £
US cost plus revenue	36,575,889	23,445,148
Ireland cost plus revenue	202,910,193	146,040,917
	<u>239,486,082</u>	<u>169,486,065</u>

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 3. Exceptional operating items

	2010 £	2009 £
Profit on acquisitions	-	(927,429)
Provision for onerous lease (see note 18)	-	94,488
	<u>-</u>	<u>(832,941)</u>

#### Profit on acquisitions

In the prior year assets were identified that existed at the date of transfer in Digital Advertising and Marketing Limited of £384,814 and in DoubleClick Europe Limited of £542,615. These assets were transferred to Google UK Limited, resulting in a profit on acquisition in 2009 of £927,429.

#### Provision for onerous lease

In 2008, the company acquired a leased property on the acquisition of the DoubleClick Inc group and has been unable to sell the lease. As a result, the company is liable for charges under the lease entered into in 2007 and expiring in 2017. The company has therefore provided for the unavoidable costs associated with the future lease commitments as an onerous lease provision. Further details are provided in note 18.

### 4. Operating loss

The operating loss is stated after charging

	2010 £	2009 £
Depreciation of tangible fixed assets		
- owned by the company	4,893,085	4,777,288
Operating lease charges - other	7,159,174	6,237,113
Research and development expenditure	<u>33,250,808</u>	<u>21,313,771</u>

### 5 Auditor's remuneration

	2010 £	2009 £
Fees payable for the audit of the company's annual accounts	<u>55,000</u>	<u>65,000</u>

### 6 Interest receivable and similar income

	2010 £	2009 £
Bank interest receivable	<u>155,706</u>	<u>43,790</u>

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 7 Interest payable and similar charges

	2010 £	2009 £
Other interest payable	-	14,682

### 8. Employee information

Staff costs, including directors' remuneration, were as follows

	2010 £	2009 £
Wages and salaries	148,813,156	108,311,434
Social security costs	13,009,397	11,762,485
Other pension costs	3,238,288	3,030,000
	<u>165,060,841</u>	<u>123,103,919</u>

Included within wages and salaries is an amount of £40,498,458 (2009 25,433,410) which relates to the cost of the employee share schemes

The average monthly number of employees (including directors) during the year was

	2010 No	2009 No
Marketing	533	502
Research and development	200	171
Management and administration	197	175
	<u>930</u>	<u>848</u>

### 9. Directors' remuneration

	2010 £	2009 £
Aggregate emoluments	-	1,399,698
Company pension contributions to defined contribution pension schemes	-	5,484

The directors receive remuneration in respect of their services to the company from other group companies. The cost of the services that they provided to this company cannot be separately identified.

Four (2009 four) directors hold share options in the ultimate parent undertaking, Google Inc. Four (2009 three) of the directors exercised options during the year.



## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 9. Directors' remuneration (continued)

During the year there were no retirement benefits accruing to any directors (2009 1) in respect of the company's defined contribution scheme

During the year the highest paid director received remuneration of £nil (2009 £1,399,698)

#### 10 Pension costs

The company operates a defined contribution scheme for certain employees. The employees' pension entitlements are secured by contributions by the company to a separately administered pension fund. Annual contributions are based on the advice of a professionally qualified actuary. The defined contribution pension charge for the year was £3,238,288 (2009 £3,030,000)

As at 31 December 2010 pension contributions of £120,520 were outstanding (2009 £467,912)

#### 11. Taxation

	2010 £	2009 £
<b>Analysis of tax charge/(credit) in the year</b>		
<b>Current tax</b>		
UK corporation tax charge on loss for the year	935,792	2,988,920
Adjustments in respect of prior periods	345,756	(11,200)
<b>Total current tax</b>	<b>1,281,548</b>	<b>2,977,720</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	3,248,856	(4,792,739)
Change in tax rates or laws	437,005	-
<b>Total deferred tax (see note 17)</b>	<b>3,685,861</b>	<b>(4,792,739)</b>
<b>Tax charge/(credit) on loss on ordinary activities</b>	<b>4,967,409</b>	<b>(1,815,019)</b>

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 11 Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2009 higher than) the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2010 £	2009 £
Loss on ordinary activities before tax	<u>(22,088,969)</u>	<u>(11,471,736)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(6,184,911)	(3,212,086)
<b>Effects of.</b>		
Expenses not deductible for tax purposes	4,242,843	997,659
Depreciation for the year in excess of capital allowances	125,830	115,303
Adjustments to tax charge in respect of prior periods	345,756	(11,200)
Other timing differences leading to a decrease (increase) in taxation	(46,700)	389
Tax deduction arising from exercise of employee options	(2,365,673)	(890,628)
Share option timing differences	5,164,403	5,978,283
<b>Current tax charge for the year</b>	<u><b>1,281,548</b></u>	<u><b>2,977,720</b></u>

#### Factors that may affect future tax charges

During the year, as a result of the changes in the UK main corporation tax rate from 28% to 27% that was substantively enacted on 20 July 2010 and that will be effective from 1 April 2011, the relevant deferred tax balances have been re-measured

Further reductions to the UK corporation tax rate were announced in the March 2011 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 2% in 2011 and 1% per annum thereafter to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 12. Tangible fixed assets

	Leasehold improvements £	Computer equipment and software £	Fixtures, Production and fittings and network equipment £	Assets in the course of construction £	Total £
<b>Cost</b>					
At 1 January 2010	7,551,140	789,935	4,997,379	872,640	24,012,456
Additions	2,070,906	-	302,951	1,447,984	6,617,303
Disposals	-	-	-	-	(427,546)
Transfers	1,624,530	-	571,980	(2,236,582)	-
<b>At 31 December 2010</b>	<b>11,246,576</b>	<b>789,935</b>	<b>5,872,310</b>	<b>84,042</b>	<b>30,202,213</b>
<b>Depreciation</b>					
At 1 January 2010	3,651,307	746,564	2,996,651	-	13,810,522
Charge for the year	981,696	304	1,217,940	-	4,893,085
On disposals	-	-	-	-	(277,238)
<b>At 31 December 2010</b>	<b>4,633,003</b>	<b>746,868</b>	<b>4,214,591</b>	<b>-</b>	<b>18,426,369</b>
<b>Net book value</b>					
At 31 December 2010	6,613,573	43,067	1,657,719	84,042	11,775,844
At 31 December 2009	3,899,833	43,371	2,000,728	872,640	10,201,934

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 13. Investments

	Investment in subsidiary undertakings £
<b>Cost or valuation</b>	
At 1 January 2010	119,805
Additions	760,026
Disposals	(119,804)
At 31 December 2010	760,027
<b>Impairment</b>	
At 1 January 2010	119,805
Charge for the year	760,026
Impairment on disposals	(119,804)
At 31 December 2010	760,027
<b>Net book value</b>	
At 31 December 2010	-
At 31 December 2009	-

During the year, as part of a restructuring programme, the company acquired the entire share capital of Postini UK Limited. The investment in the company was impaired and reduced to a value of £nil. Following the year end, Postini UK Limited was liquidated and a distribution of £760,026 was made to the company.

In 2008, the company acquired the entire ordinary share capital of DoubleClick Europe Limited. The investment in the company was impaired in 2008 and reduced to a value of £nil. The company is in the process of being liquidated.

In 2008, the company also acquired the entire ordinary share capital of Digital Advertising and Marketing Limited. The investment in the company was impaired in 2008 and reduced to a value of £nil. The company is now fully liquidated.

### 14 Debtors

	2010 £	2009 £
Amounts owed by group undertakings	2,533,220	5,215,143
Deferred tax asset (see note 17)	8,504,890	12,190,751
Other debtors	14,026,104	4,861,580
Prepayments and accrued income	2,633,386	2,404,044
	<u>27,697,600</u>	<u>24,671,518</u>

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

Other debtors include £270,000 (2009: £540,000) due after more than one year.

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 15 Creditors' amounts falling due within one year

	2010 £	2009 £
Trade creditors	12,778,554	3,160,342
Amounts owed to group undertakings	6,604,885	19,074,364
Corporation tax	935,145	2,972,695
Social security and other taxes	7,862,715	6,778,680
Other creditors	187,144	95,238
Accruals and deferred income	40,674,544	27,337,981
	<u>69,042,987</u>	<u>59,419,300</u>

Amounts due to group undertakings are unsecured, interest free and are repayable on demand

#### 16. Creditors: Amounts falling due after more than one year

	2010 £	2009 £
Other creditors	<u>227,745</u>	<u>-</u>

#### 17 Deferred tax asset

	2010 £	2009 £
At 1 January	12,190,751	7,398,012
(Charged)/credited to profit and loss account (see note 11)	(3,685,861)	4,792,739
At 31 December	<u>8,504,890</u>	<u>12,190,751</u>

The deferred tax asset is made up as follows

	2010 £	2009 £
Accelerated capital allowances	2,105,229	2,012,019
Short term timing differences	6,399,661	10,178,732
	<u>8,504,890</u>	<u>12,190,751</u>

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 17. Deferred tax asset (continued)

A deferred tax asset of £6,381,717 (2009 £10,112,775) has been recognised in respect of the share options as the directors are of the opinion that a tax deduction will be likely in the future. The remaining deferred tax asset recognised within the short term timing differences is pensions of £17,944 (2009 £65,957).

A deferred tax asset of £1,378,912 (2009 £1,435,771) has not been recognised in respect of losses.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The UK corporation tax rate will reduce to 27% effective 1 April 2011 and disclosure of deferred tax has been adjusted to reflect the enactment of the revised rate with an impact of £437,005 in these financial statements.

Following the Budget of 23 March 2011, the main rate of corporation tax will be reduced to 26% effective from 1 April 2011, and this was substantively enacted on 29 March 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and are not included in these financial statements. The company expects the impact of these changes to the financial statements will be approximately £230,000.

### 18. Provisions for liabilities and charges

	<b>Onerous lease provision £</b>	<b>Dilapidation provision £</b>	<b>Total £</b>
At 1 January 2010	3,499,910	-	3,499,910
Additions	-	681,723	681,723
Utilised during the year	(1,289,457)	-	(1,289,457)
At 31 December 2010	<u>2,210,453</u>	<u>681,723</u>	<u>2,892,176</u>

#### Onerous lease provision

In 2008, the company vacated a leased property and as a result, the company is liable for charges under the lease which expires in 2017. The provision represents the residual lease commitments, net of sublease income and has been discounted on a pre tax basis.

#### Dilapidation provision

During the year, the company entered into 3 new leases which expire in 2015, where a contractual obligation exists to make good any dilapidations. The provision represents management's best estimate of the present obligation.

### 19. Share capital

	<b>2010 £</b>	<b>2009 £</b>
<b>Allotted, called up and fully paid</b>		
1,000 Ordinary shares shares of £1 each	<u>1,000</u>	<u>1,000</u>

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 20. Reserves

	Share option reserve £	Profit and loss account £
At 1 January 2010	70,575,360	(32,704,912)
Loss for the financial year		(27,056,378)
Adjustment in respect of employee share schemes	40,498,458	
At 31 December 2010	<u>111,073,818</u>	<u>(59,761,290)</u>

#### 21. Reconciliation of movement in shareholder's funds

	2010 £	2009 £
Opening shareholder's funds	37,871,448	22,094,755
Loss for the year	(27,056,378)	(9,656,717)
Adjustment in respect of employee share schemes	40,498,458	25,433,410
Closing shareholder's funds	<u>51,313,528</u>	<u>37,871,448</u>

#### 22 Share based payments

The ultimate parent undertaking, Google Inc, maintains the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No 2), the 2003 Stock Plan (No 3), the 2004 Stock Plan, and plans assumed through acquisitions, all of which are collectively referred to as the "Stock Plans". Under the Stock Plans, incentive and non qualified stock options or rights to purchase common stock may be granted to eligible participants. Options are generally granted for a term of 10 years. Except for options granted pursuant to our stock option exchange program completed in March 2009 (the Exchange), options granted under the Stock Plans generally vest 25% after the first year of service and ratably each month over the remaining 36-month period contingent upon employment with us on the vesting date. Options granted under Stock Plans other than the 2004 Stock Plan may be exercised prior to vesting.

Under the Stock Plans, Restricted Stock Units (RSUs) and restricted shares have been issued. An RSU award is an agreement to issue shares of our stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with us on the dates of vest. These RSUs vest from zero to 50.0% of the grant amount at the end of each of the four years from date of hire based on the employee's performance. RSUs under the Founders' Award programs are issued to individuals on teams that have made extraordinary contributions to Google. These awards vest quarterly over four years contingent upon employment with us on the vesting dates.

The exercise price disclosures are given in US\$ as this is the currency in which the options are exercisable and the underlying shares are quoted.

##### Fair value of options granted in the year

The fair value of each option award on the date of grant was estimated using the Black-Scholes option pricing model.

##### Risk free interest rate

The risk free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 22. Share based payments (continued)

##### Expected stock price volatility

Assumptions about stock price volatility have been based exclusively on the implied volatilities of publicly traded options to buy Google Inc stock with contractual terms closest to the expected life of options granted to Google employees

##### Expected life

Assumptions about the expected term are estimated based upon the historical exercise behaviour of Google employees

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted (excluding options granted in connection with the Exchange in certain employee stock options as set out below) in the period presented

	2010	2009
Expected stock volatility	35%	37%
Options life (years)	10	10
Expected life (years)	5.4	5.8
Risk free interest rate	1.9%	2.6%
Expected dividends expressed as a dividend yield	-	-
Weighted average fair value per option granted - ordinary shares	US\$231.69	US\$229.91
Weighted average fair value option granted - RSUs	US\$521.00	US\$459.19

Google's ordinary share option and RSU activities consisted of the following

##### Ordinary share options

	2010 Number of share options	2010 Weighted average exercise price \$	2009 Number of share options	2009 Weighted average exercise price \$
Outstanding at 1 January	336,291	311.06	350,839	441.46
Net transfer to other group undertakings	(16,889)	311.06	(32,506)	441.46
Granted	83,254	443.83	277,264	325.28
Exercised	(70,550)	273.00	(29,180)	207.55
Forfeited / cancellations	(16,862)	314.06	(230,126)	512.91
Outstanding at 31 December	315,244	355.38	336,291	311.06
Exercisable at 31 December	127,136	292.89	112,681	268.73



## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 22 Share based payments (continued)

##### Restricted Stock Units

	2010 Number of restricted stock units	2010 Weighted average exercise price \$	2009 Number of restricted stock units	2009 Weighted average exercise price \$
Outstanding at 1 January	184,332	465.02	128,385	456.32
Net transfer to other group undertakings	5,405	465.02	(46,993)	456.32
Granted	134,568	521.00	146,311	459.19
Vested	(66,109)	449.74	(33,507)	447.42
Forfeited / cancellations	(10,852)	485.95	(9,864)	437.21
Outstanding at 31 December	<b>247,344</b>	<b>497.28</b>	<b>184,332</b>	<b>465.02</b>

Transfers to other group undertakings relate to employees of Google UK Limited being re-employed by other group undertakings

The table below summarises information regarding Google's outstanding share options

##### Ordinary share options

Range of exercise price	Weighted average exercise price \$	2010		Weighted average exercise price \$	2009	
		Number of share options	Weighted average remaining life (years)		Number of share options	Weighted average remaining life (years)
\$0.30 - \$94.80	67.36	16,026	5.72	50.17	12,574	4.50
\$117.84 - \$198.41	185.86	7,657	4.13	181.69	19,426	5.07
\$205.96 - \$298.91	277.84	4,905	4.95	270.78	8,478	5.73
\$300.97 - \$399.00	311.16	186,826	6.94	310.54	251,066	7.79
\$401.78 - \$499.07	437.06	29,321	8.50	436.36	38,225	9.19
\$500.03 - \$594.05	527.71	70,439	9.71	533.74	6,297	7.70
\$615.95 - \$699.35	653.20	70.00	7.13	648.11	225	7.97

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2010

### 22 Share based payments (continued)

#### Restricted Stock Units

Range of exercise price	Weighted average exercise price \$	Number of restricted stock units	Weighted average remaining life (years)	Weighted average exercise price \$	Number of restricted stock units	Weighted average remaining life (years)
\$231.29 - £298.99	282.97	176	1.87	283.21	272	2.83
\$300.97 - \$399.00	363.22	35,564	2.23	357.44	50,283	3.07
\$402.00 - \$499.07	455.29	62,095	2.55	441.75	76,876	2.84
\$500.03 - \$597.76	544.26	144,644	3.43	588.95	53,974	3.64
\$605.49 - \$699.35	620.26	4,653	3.15	645.25	2,467	2.46
\$707.00 - \$741.79	718.22	212	0.90	714.66	460	1.87

In March 2009, Google completed an offer to exchange certain employee stock options issued under the 2004 Stock Plan ("the Exchange"). Certain previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. Options for an aggregate of approximately 7.6 million shares of the Class A common stock were exchanged. Options granted pursuant to the Exchange have an exercise price of \$308.57 per share, the closing price of the Class A common stock as reported by The Nasdaq Global Select Market on 6 March 2009. Options granted pursuant to the Exchange have a new vesting schedule determined by adding 12 months to each vesting date under the exchanged options' original vesting schedule.

In addition, new options will vest no sooner than six months after the date of the Exchange. The Exchange resulted in a modification charge in 2009 of £12,436,971 which is being recognised over the vesting periods of the new options.

The weighted average share price during the period for options exercised over the year was \$479.58 (2009 \$399.42). The total charge for the year relating to employee share based payment plans was £40,498,458 (2009 £25,433,410), all of which related to equity share based payment transactions. After deferred tax, the total charge was £34,116,741 (2009 £15,320,635), as the related deferred tax asset has been (2009 has been) recognised (see note 17).

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2010

#### 23 Operating lease commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2010	2009
	£	£
<b>Expiry date</b>		
Within 1 year	49,814	47,600
Between 2 and 5 years	1,118,360	-
After more than 5 years	7,177,966	7,177,966
	<u>8,346,140</u>	<u>7,225,566</u>

#### 24 Related party transactions

The company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Disclosures", from the requirement to give details of transactions with entities that are wholly owned by the Google Inc group

#### 25 Immediate and ultimate parent undertakings

The company's immediate parent undertaking is Google International LLC

The company's ultimate parent undertaking is Google Inc, a company incorporated in Delaware, USA. The largest group in which the results of the company are consolidated is that headed by Google Inc and the consolidated financial statements are available to the public and may be obtained from 1600 Amphitheatre Parkway, Mountain View CA 94043