

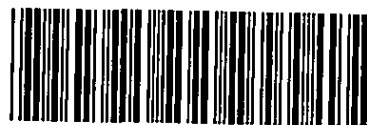
Registered number 03977902

GOOGLE UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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Google UK Limited

CONTENTS

| | PAGE |
|--|----------------|
| GENERAL INFORMATION | 2 |
| REPORT OF THE DIRECTORS | 3 - 5 |
| INDEPENDENT AUDITOR'S REPORT | 6 - 7 |
| PROFIT AND LOSS ACCOUNT | 8 |
| BALANCE SHEET | 9 |
| NOTES TO THE FINANCIAL STATEMENTS | 10 - 23 |

Google UK Limited

General Information

| | |
|--------------------------|---|
| Directors | John Herlihy (resigned 10 February 2012) Graham Law Lloyd Hartley Martin (resigned 10 February 2012) John Kent Walker (resigned 10 February 2012) Don Harrison (appointed 10 February 2012) |
| Company secretary | TJG Secretaries Limited |
| Company number | 03977902 |
| Registered office | Belgrave House 76 Buckingham Palace Road London SW1W 9TQ |
| Auditors | Ernst & Young Harcourt Centre Harcourt Street Dublin 2 Ireland |
| Bankers | Citibank plc 336 Strand London WC2R 1HB |
| Solicitors | Taylor Wessing LLP 5 New Street Square London EC4A 3TW |

Google UK Limited

Directors report For the year ended 31 December 2011

The directors present this annual report and the audited financial statements of the company for the year ended 31 December 2011

Principal activities

Google UK Limited ("company") is engaged in the provision of marketing services to Google Ireland Limited and the provision of research and development services to Google Inc. There were no significant changes in the operation of the company during the period under review.

Results for the year

There were no significant new activities that had a material impact on the company's results during the financial year ended 31 December 2011.

There were no new products and services introduced during the financial year ended 31 December 2011 that had a material impact on the financial statements.

Review of key performance indicators

Turnover increased from £239,486,082 to £395,757,534 in 2011, an increase of £156,271,452. Administrative expenses (excluding exceptional items) increased from £262,490,783 to £416,862,285, an increase of £154,371,502 in 2011. 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 8 and 9, respectively. The loss for the financial year, amounting to £24,166,011, has been deducted from reserves.

Principal risks and uncertainties

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:

- *These businesses' face intense competition. If they do not continue to innovate and provide products and services that are useful to users, they may not remain competitive, and their revenues and operating results could be adversely affected.*
- *They generate their revenues almost entirely from advertising, and the reduction in spending by or loss of advertisers could seriously harm them.*
- *A variety of new and existing US and foreign laws could subject these businesses' to claims or otherwise harm them.*

Political and charitable contributions

During the year the company made no political donations (2010: £nil) and made charitable donations of £76,256 (2010: £nil).

Research and development

The company continued to provide research and development services to its ultimate parent company, Google Inc. During the year, the company spent £62,485,040 (2010: £33,250,808) on research and development. Such expenses may fall into the following categories: research, development, engineering and fixes or revisions.

Google UK Limited

Directors report For the year ended 31 December 2011

Future developments

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

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation of employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the company. Communication with all employees continues through briefing groups and the 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.

Results and dividends

The company's loss for the financial year is £24,166,011 (2010: loss of £27,056,378).

The directors do not recommend the payment of a dividend (2010: £nil).

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.

Directors

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

John Herlihy (resigned 10 February 2012)
Graham Law
Lloyd Hartley Martin (resigned 10 February 2012)
John Kent Walker (resigned 10 February 2012)
Don Harrison (appointed 10 February 2012)

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

Google UK Limited

Directors report For the year ended 31 December 2011

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.

Disclosure of information to auditors

The directors confirm that, so far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of Auditors

In accordance with s 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young as auditor of the company.

By order of the board



Graham Law
Director
13 July 2012

Google UK Limited

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 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 20. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 4 and 5, 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 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 2011 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

Google UK Limited

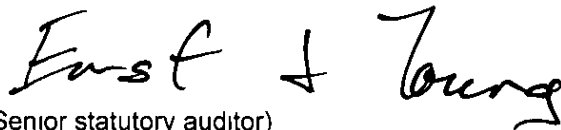
Opinion on other matter prescribed by the Companies Act 2006

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

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



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

18 July 2012

Google UK Limited

Registered number. 03977902

Profit and loss account for the year ended 31 December 2011

| | Notes | 2011 £ | 2010 £ |
|--|-------|----------------------------|----------------------------|
| Turnover | 2 | <u>395,757,534</u> | <u>239,486,082</u> |
| Gross profit | | 395,757,534 | 239,486,082 |
| Administrative expenses | 3 | <u>(416,862,285)</u> | <u>(262,490,783)</u> |
| Operating loss | | (21,104,751) | (23,004,701) |
| Income from shares in group companies | 4 | - | 760,026 |
| Interest receivable and similar income | 5 | <u>387,186</u> | <u>155,706</u> |
| Loss on ordinary activities before taxation | | (20,717,565) | (22,088,969) |
| Provision for income taxes | 8 | (3,448,446) | (4,967,409) |
| Loss for the financial year | | <u>(24,166,011)</u> | <u>(27,056,378)</u> |

Turnover and operating profit arose solely from continuing operations

Statement of Recognised Gains and Losses

There are no recognised gains and losses in either year other than those included in the profit attributable to the shareholder of the company, and therefore, no separate statement of total recognised gains and losses has been prepared

The notes on pages 10 to 23 form an integral part of these financial statements

Google UK Limited

Registered number 03977902

Balance Sheet as at 31 December 2011

| | Notes | 2011 £ | 2010 £ |
|---|-------|----------------------|---------------------|
| ASSETS | | | |
| Fixed assets | | | |
| Tangible assets | 9 | 45,707,442 | 11,775,844 |
| Investments | 10 | - | - |
| Fixed assets | | 45,707,442 | 11,775,844 |
| Current assets | | | |
| Debtors amounts falling due within one year | 11 | 41,139,787 | 27,697,600 |
| Cash at bank and in hand | | 116,322,997 | 84,002,992 |
| Current assets | | 157,462,784 | 111,700,592 |
| Creditors: amounts falling due within one year | 12 | (112,555,157) | (69,042,987) |
| Total assets less current liabilities | | 90,615,069 | 54,433,449 |
| Creditors amounts falling due after more than one year | 13 | (2,993,474) | (227,745) |
| Provisions for liabilities and charges | 15 | (9,016,943) | (2,892,176) |
| Net assets | | 78,604,652 | 51,313,528 |
| Capital and reserves | | | |
| Called up share capital | 16 | 1,000 | 1,000 |
| Other capital reserves | 17 | 162,530,953 | 111,073,818 |
| Profit and loss account | 17 | (83,927,301) | (59,761,290) |
| Capital and reserves | | 78,604,652 | 51,313,528 |

The financial statements on pages 8 to 23 were approved by the board of directors on 13 July 2012 and were signed on its behalf by

Graham Law
Director



Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

1 Principal accounting policies

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.

Exemptions availed

The company is a wholly owned subsidiary of Google Inc. and is included in the consolidated financial statements of Google Inc., which are publicly available. Consequently, the company has taken advantage of the following exemptions:

Consolidated accounts

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.

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements".

Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions", from disclosing related-party transactions with subsidiary undertakings wholly owned by Google Inc.

Foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in British Pounds ("£") which is the company's functional and presentation currency.

Transactions denominated in foreign currencies relating to revenue, costs, monetary assets and liabilities and non-monetary assets and liabilities are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are then re-translated at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with in the profit and loss account.

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.

Pensions

The company operates a defined contribution pension scheme. The expected cost of providing pensions

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

1 Principal accounting policies (continued)

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.

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 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.

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.

Research and development

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

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 |

Investments

Investments are stated at cost less any provision for impairment.

Share based payments

Equity settled transactions

The company has elected to use the Black-Scholes-Merton ("BSM") option pricing model to determine the fair value of stock options on the dates of grant. Restricted stock units (RSUs) are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the vesting dates net of the statutory withholding requirements to be paid by the company on behalf of its employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding.

Cash settled transactions

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

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

2 Turnover

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

Geographical market

| | 2011 £ | 2010 £ |
|---------------------------|--------------------|--------------------|
| US cost plus revenue | 69,051,566 | 36,257,867 |
| Ireland cost plus revenue | 326,705,968 | 203,228,215 |
| | <u>395,757,534</u> | <u>239,486,082</u> |

3. Administrative expenses

| | 2011 £ | 2010 £ |
|--|--------------------|--------------------|
| Advertising and promotional expense | 105,474,648 | 56,230,796 |
| Professional services | 9,815,144 | 6,979,678 |
| Auditor's remuneration | 55,000 | 55,000 |
| Stock based compensation expense | 51,457,135 | 40,498,458 |
| Depreciation and amortisation expense | 5,748,424 | 4,892,908 |
| Employee benefit expense | 190,644,447 | 124,562,383 |
| Other administrative expenses / (income) | 53,667,487 | 29,271,560 |
| | <u>416,862,285</u> | <u>262,490,783</u> |

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 15.

4 Income from shares in group companies

| | 2011 £ | 2010 £ |
|---------------------------------------|-----------|----------------|
| Income from shares in group companies | - | 760,026 |
| | <u>-</u> | <u>760,026</u> |

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

5 Interest receivable and similar income

| | 2011 £ | 2010 £ |
|-----------------|-----------------------|-----------------------|
| Interest Income | <u>387,186</u> | <u>155,706</u> |
| | <u><u>387,186</u></u> | <u><u>155,706</u></u> |

6 Employee information

Staff costs, including directors' remuneration, were as follows

| | 2011 £ | 2010 £ |
|-----------------------|---------------------------|---------------------------|
| Wages and salaries | 213,726,592 | 148,813,156 |
| Social security costs | 22,908,638 | 13,009,397 |
| Other pension costs | <u>5,466,352</u> | <u>3,238,288</u> |
| | <u><u>242,101,582</u></u> | <u><u>165,060,841</u></u> |

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

| | 2011 £ | 2010 £ |
|-------------------------------|---------------------|-------------------|
| Marketing | 723 | 533 |
| Research and development | 313 | 200 |
| Management and administration | <u>268</u> | <u>197</u> |
| | <u><u>1,304</u></u> | <u><u>930</u></u> |

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 (2010: four) directors hold share options in the ultimate parent undertaking, Google Inc. Three (2010: four) of the directors exercised options during the year.

During the year there were no retirement benefits accruing to any directors (2010: nil) in respect of the company's defined contribution scheme.

During the year the highest paid director received remuneration of £nil (2010: £nil).

7. 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 £5,466,352 (2010: £3,238,288).

As at 31 December 2011 pension contributions of £974,761 were outstanding (2010: £120,520).

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

8. Taxation

| | 2011 £ | 2010 £ |
|---|--------------------|------------------|
| Analysis of tax charge/(credit) in the year | | |
| Current tax | | |
| UK corporation tax on loss for the year | 6,099,078 | 935,792 |
| Adjustments in respect of prior years | 1,153,201 | 345,756 |
| Total current tax | 7,252,279 | 1,281,548 |
| Deferred tax | | |
| Origination and reversal of timing differences | (4,565,076) | 3,248,856 |
| Adjustment in respect of previous periods | (136,119) | - |
| Changes in tax rates or laws | 897,362 | 437,005 |
| Total deferred tax (see note 14) | (3,803,833) | 3,685,861 |
| Total charge/(credit) on loss on ordinary activities | 3,448,446 | 4,967,409 |

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2010 higher than) the standard rate of corporation tax in the UK of 26.49% (2010 28%). The differences are explained below

| | 2011 £ | 2010 £ |
|---|---------------------|---------------------|
| Loss on ordinary activities before tax | (20,717,565) | (22,088,969) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.49% (2010 28%) | (5,488,083) | (6,184,911) |
| Effects of | | |
| Expenses not deductible for tax purposes | 4,569,194 | 4,242,843 |
| Depreciation for the year in excess of capital allowances | 551,858 | 125,830 |
| Adjustments to tax charge in respect of prior periods | 1,153,201 | 345,756 |
| Other timing differences leading to a decrease (increase) in taxation | 782,901 | (46,700) |
| Tax deduction arising from exercise of employee options | 1,058,513 | (2,365,673) |
| Share option timing differences | 4,624,695 | 5,164,403 |
| Current tax charge for the year | 7,252,279 | 1,281,548 |

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

8 Taxation (continued)

Factors affecting future tax charges

Further reduction to the UK corporation tax rate were announced in the March 2012 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 2015. 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 2011

9. Tangible Fixed Assets

| | Leasehold improvements £ | Information technology assets £ | Furniture and fixtures £ | Construction in progress £ | Total £ |
|------------------------|--------------------------------|---------------------------------------|--------------------------------|----------------------------------|------------|
| Costs | | | | | |
| As at 1 January 2011 | 11,246,575 | 14,914,357 | 3,946,927 | 94,353 | 30,202,213 |
| Additions costs | 20,470,205 | 7,748,261 | 468,697 | 10,992,859 | 39,680,022 |
| Disposals costs | - | (593,382) | - | - | (593,382) |
| Transfer costs | 436,096 | 219,892 | 447,491 | (1,103,479) | - |
| As at 31 December 2011 | 32,152,876 | 22,289,128 | 4,863,115 | 9,983,733 | 69,288,853 |
| Depreciation | | | | | |
| As at 1 January 2011 | 4,633,002 | 10,806,247 | 2,987,119 | - | 18,426,369 |
| Charge for the year | 1,995,155 | 3,349,894 | 403,375 | - | 5,748,424 |
| Disposals depn | - | (593,382) | - | - | (593,382) |
| As at 31 December 2011 | 6,628,157 | 13,562,759 | 3,390,494 | - | 23,581,411 |
| Net book value | | | | | |
| At 31 December 2011 | 25,524,719 | 8,726,369 | 1,472,621 | 9,983,733 | 45,707,442 |
| At 31 December 2010 | 6,613,573 | 4,108,110 | 959,808 | 94,353 | 11,775,844 |

Restatement of 2010 Fixed Asset Categories

The headings for "Furniture and fixtures", "Information technology assets", "Construction in progress" were "Fixtures, fittings and equipment", "Computer equipment and software", "Production and network equipment" and "Assets in the course of construction" respectively in the prior year. Included in the assets in the course of construction closing balance in the prior year was information technology assets with a cost of £10,311. Included in the fixtures, fittings and equipment closing balance of the prior year was assets in the course of construction with a cost of £1,925,382. This has been reclassified to information technology assets in the current year.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

10 Investments

| | Investment in subsidiary undertakings £ |
|--------------------------|--|
| Cost or valuation | |
| At 1 January 2011 | 760,027 |
| Additions | - |
| Disposals | (760,027) |
| At 31 December 2011 | - |
| Impairment | |
| At 1 January 2011 | 760,027 |
| Charge for the year | - |
| Impairment on disposals | (760,027) |
| At 31 December 2011 | - |
| Net book value | |
| At 31 December 2011 | - |
| At 31 December 2010 | - |

In 2010, 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. In 2011, Postini UK Limited was liquidated and a distribution of £760,026 was made to the company.

11 Debtors, amounts falling due within one year

| | 2011 £ | 2010 £ |
|---------------------------------|-------------------|-------------------|
| Amounts owed by group companies | 9,005,564 | 2,533,221 |
| Trade Debtors | - | 451,744 |
| Prepayments and accrued income | 7,271,050 | 3,487,188 |
| Deferred tax receivable | 12,308,724 | 8,504,890 |
| VAT receivable | 9,913,243 | 9,539,742 |
| Other debtors | 2,641,206 | 3,180,816 |
| | 41,139,787 | 27,697,601 |

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

Other debtors include £nil (2010: £270,000) due after more than one year.

Included within the deferred tax receivable balance of £12.3m is an amount of £8.9m relating to the deferred tax asset on share based expenses. The significant majority of this amount will be recoverable in a period greater than one year.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

12 Creditors amounts falling due within one year

| | 2011 £ | 2010 £ |
|--|--------------------|-------------------|
| Amounts owed to group companies | 8,710,724 | 6,604,886 |
| Trade creditors | 17,508,742 | 13,702,954 |
| Accruals and deferred income | 84,153,566 | 47,800,002 |
| Other creditors including tax and social welfare | 2,182,125 | 935,145 |
| | <u>112,555,157</u> | <u>69,042,987</u> |

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

13. Creditors amounts falling due after more than one year

| | 2011 £ | 2010 £ |
|--|------------------|----------------|
| Accruals and deferred income | 2,516,361 | - |
| Deferred rent, non current | 291,712 | 227,745 |
| Other creditors including tax and social welfare | 185,401 | - |
| | <u>2,993,474</u> | <u>227,745</u> |

14 Deferred tax asset

| | 2011 £ | 2010 £ |
|---|-------------------|------------------|
| At 1 January | 8,504,890 | 12,190,751 |
| (Charged)/ credited to profit and loss account (see note 8) | 3,667,715 | (3,685,861) |
| Adjustment in respect of prior periods | 136,119 | - |
| | <u>12,308,724</u> | <u>8,504,890</u> |

The deferred tax asset is made up as follows

| | 2011 £ | 2010 £ |
|--------------------------------|-------------------|------------------|
| Accelerated capital allowances | 2,596,078 | 2,105,229 |
| Short term timing differences | 9,712,646 | 6,399,661 |
| Losses | 1,276,770 | - |
| Deferred tax not provided | (1,276,770) | - |
| | <u>12,308,724</u> | <u>8,504,890</u> |

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

14. Deferred tax asset (continued)

A deferred tax asset of £8,964,382 (2010 £6,381,717) 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 and bonuses of £748,264 (2010 £17,944).

A deferred tax asset of £1,276,770 (2010 £1,378,912) has not been recognised in respect of losses.

Further reduction to the UK corporation tax rate were announced in the March 2012 Budget. The resolution to change the corporation tax rate further to 24% was substantively enacted on 26 March 2012. The changes had not been substantively enacted at the balance sheet date and, therefore are not recognised in these financial statements.

15 Provision for liabilities and charges

| | Onerous lease provision £ | Dilapidation provision £ | Total £ |
|--------------------------|------------------------------------|--------------------------------|------------------|
| At 1 January 2011 | 2,210,453 | 681,723 | 2,892,176 |
| Additions | - | 6,649,397 | 6,649,397 |
| Utilised during the year | (524,630) | - | (524,630) |
| At 31 December 2011 | <u>1,685,823</u> | <u>7,331,120</u> | <u>9,016,943</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 three new leases which expire in 2021/2022, the company also has three 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.

16 Share capital

| | 2011 £ | 2010 £ |
|---|--------------|--------------|
| Allotted, called up and fully paid | | |
| 1,000 - Ordinary 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 2011

17 Reconciliation of movement in shareholder's funds

| | Share capital | Profit and loss account | Other capital reserves | Total |
|-----------------------------|---------------|----------------------------|---------------------------|--------------|
| | £ | £ | £ | £ |
| Balance at 1 January 2010 | 1,000 | (32,704,912) | 70,575,360 | 37,871,448 |
| Profit for the period | - | (27,056,378) | - | (27,056,378) |
| Share option | - | - | 40,498,458 | 40,498,458 |
| Balance at 31 December 2010 | 1,000 | (59,761,290) | 111,073,818 | 51,313,528 |
| Balance at 1 January 2011 | 1,000 | (59,761,290) | 111,073,818 | 51,313,528 |
| Profit for the period | - | (24,166,011) | - | (24,166,011) |
| Share option | - | - | 51,457,135 | 51,457,135 |
| Balance at 31 December 2011 | 1,000 | (83,927,301) | 162,530,953 | 78,604,652 |

18 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 our Stock Plans, incentive and nonqualified stock options or rights to purchase common stock may be granted to eligible participants. Options are generally granted for a term of 10 years. Options granted under the Stock Plans other than the 2004 Stock Plan may be exercised prior to vesting. Under the Stock Plans, we have also issued RSUs and restricted shares. An RSU award is an agreement to issue shares of our stock at the time of vest. Options granted and RSUs issued to employees under the Stock Plans generally vest over four years contingent upon employment with us on the vesting date.

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.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted in the period presented

| | 2011 | 2010 |
|--|------------|------------|
| Expected stock volatility | 0.33 | 0.35 |
| Options life (years) | 6.93 | 10 |
| Expected life (years) | 5.9 | 5.4 |
| Risk free interest rate | 0.023 | 0.019 |
| Expected dividends expressed as a dividend yield | | - |
| Weighted average fair value per option granted - ordinary shares | US\$580.81 | US\$443.83 |
| Weighted average fair value option granted - RSUs | US\$537.13 | US\$521.00 |

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

Ordinary share options

| | 2011 Number of share options | 2011 Weighted average exercise price \$ | 2010 Number of share options | 2010 Weighted average exercise price \$ |
|--|---------------------------------------|--|---------------------------------------|--|
| Outstanding at 1 January | 315,244 | 355.38 | 336,291 | 311.06 |
| Net transfer to other group undertakings | (13,227) | 355.38 | (16,889) | 311.06 |
| Granted | 28,427 | 580.81 | 83,254 | 443.83 |
| Exercised | (60,667) | 307.04 | (70,550) | 273.00 |
| Forfeited / cancellations | (6,304) | 360.28 | (16,862) | 314.06 |
| Outstanding at 31 December | 263,473 | 394.97 | 315,244 | 355.38 |
| Exercisable at 31 December | 135,996 | 340.77 | 127,136 | 292.89 |

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

Restricted Stock Units

| | 2011 | 2011 | 2010 | 2010 |
|--|-------------|----------|-------------|----------|
| | Number of | Weighted | Number of | Weighted |
| | restricted | average | restricted | average |
| | stock units | exercise | stock units | exercise |
| | | price | | price |
| | | \$ | | \$ |
| Outstanding at 1 January | 247,344 | 497 28 | 184,332 | 465 02 |
| Net transfer to other group undertakings | (9,926) | 497 28 | 5,405 | 465 02 |
| Granted | 159,165 | 537 13 | 134,568 | 521 00 |
| Exercised | (93,830) | 493 14 | (66,109) | 449 74 |
| Forfeited / cancellations | (6,154) | 493 74 | (10,852) | 485 95 |
| Outstanding at 31 December | 296,599 | 521 32 | 247,344 | 497 28 |
| Expected to vest after 31 December * | 265,693 | 521 32 | 221,620 | 497 28 |

* RSUs and restricted shares expected to vest reflect an estimated forfeiture rate

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

| | 2011 | | | 2010 | | |
|-------------------------|------------------------------------|-------------------------|---|------------------------------------|-------------------------|---|
| Range of exercise price | Weighted average exercise price \$ | Number of share options | Weighted average remaining life (years) | Weighted average exercise price \$ | Number of share options | Weighted average remaining life (years) |
| \$0 30 - \$100 00 | 61 02 | 8,972 | 3 46 | 67 36 | 16,026 | 5 72 |
| \$100 01 - \$200 00 | 186 71 | 2,637 | 3 11 | 185 86 | 7,657 | 4 13 |
| \$200 01 - \$300 00 | 265 63 | 4,017 | 3 75 | 277 84 | 4,905 | 4 95 |
| \$300 01 - \$400 00 | 311 15 | 131,238 | 5 99 | 311 16 | 186,826 | 6 94 |
| \$400 01 - \$500 00 | 436 79 | 23,929 | 7 54 | 437 06 | 29,321 | 8 50 |
| \$500 01 - \$600 00 | 544 58 | 89,477 | 12 41 | 527 71 | 70,439 | 9 71 |
| \$600 01 - \$700 00 | 606 53 | 3,203 | 9 04 | 653 20 | 70 | 7 13 |

Google UK Limited

Notes to the financial statements for the year ended 31 December 2011

18 Share based payments (continued)

| Restricted Stock Units | | | | | | |
|-------------------------|------------------------------------|-------------------------|---|------------------------------------|-------------------------|---|
| | | | 2011 | | 2010 | |
| Range of exercise price | Weighted average exercise price \$ | Number of share options | Weighted average remaining life (years) | Weighted average exercise price \$ | Number of share options | Weighted average remaining life (years) |
| \$231.29 - \$300.00 | 284.33 | 59 | 0.87 | 282.97 | 176 | 1.87 |
| \$300.01 - \$400.00 | 363.45 | 19,857 | 1.25 | 363.22 | 35,564 | 2.23 |
| \$400.01 - \$500.00 | 477.04 | 97,605 | 2.81 | 455.29 | 62,095 | 2.55 |
| \$500.01 - \$600.00 | 554.09 | 153,003 | 2.68 | 544.26 | 144,644 | 3.43 |
| \$600.01 - \$700.00 | 1,195.08 | 26,075 | 3.32 | 620.26 | 4,653 | 3.15 |
| \$700.01 - \$800.00 | - | - | - | 718.22 | 212 | 0.90 |

The weighted average share price during the period for options exercised over the year was \$307.04 (2010 \$479.58). The total charge for the year relating to employee share based payment plans was £51,457,135 (2010 £40,498,458), all of which related to equity share based payment transactions. After deferred tax, the total charge was £44,499,969 (2010 £34,116,741), as the related deferred tax asset has been recognised (see note 14).

19 Operating lease commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as follows

| | | | Land and buildings | |
|-------------------------|--|--|--------------------|------------------|
| | | | 2011 £ | 2010 £ |
| Expiry date: | | | | |
| Within 1 year | | | | |
| Between 2 and 5 years | | | 25,892 | 49,814 |
| After more than 5 years | | | 1,513,472 | 1,118,360 |
| | | | 18,125,510 | 7,177,966 |
| | | | 19,664,874 | 8,346,140 |

20 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.