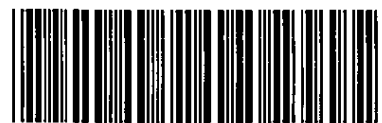


Google UK Limited

Annual report and financial statements for the year ended 31 December 2008

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Google UK Limited

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Google UK Limited

Company information

Directors

Nikesh Arora (resigned 6 July 2009)
John Herlihy
Graham Law
Lloyd Hartley Martin
John Kent Walker

Secretary

T J G Secretaries Limited

Registered office

Belgrave House
76 Buckingham Palace Road
London
SW1W 9TQ

Auditors

Ernst & Young
Harcourt Centre
Harcourt Street
Dublin 2

Bankers

Citibank plc
336 Strand
London
WC2R 1HB

Solicitors

Taylor Wessing
5 New Street Square
London
EC4A 3TW

Google UK Limited

Directors' report for the year ended 31 December 2008

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2008.

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.

During the year, Google Inc. acquired the DoubleClick Inc. group. Following this acquisition a number of companies within the DoubleClick group transferred their net liabilities to Google UK Limited. This resulted in a loss on acquisition of £12,020,146. Further details are provided in note 21.

During the year, the company also acquired the entire share capital of Digital Advertising and Marketing Limited and DoubleClick Europe Limited for £119,804 and £1 respectively, as detailed in note 11.

The company also vacated a property during the year, resulting in the need for an onerous lease provision of £4,335,922 as detailed in note 14.

There were no other significant new activities that had a material impact on the company's results during the financial year ended 31 December 2008.

There were no new products and services introduced during the financial year ended 31 December 2008 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 may not be included in the advertising budgets of large advertisers, which in turn 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

Turnover increased from £104,161,241 to £149,696,428 in 2008, an increase of £45,535,187. This increase is due to a significant increase in employment and other costs impacting on the Cost Plus Agreement.

Administrative expenses

Administrative expenses (excluding exceptional items) increased from £108,066,271 to £160,179,549 an increase of £52,113,278 in 2008. This increase relates to an increase in demand for the company's marketing services in the UK.

Google UK Limited

Directors' report for the year ended 31 December 2008 (continued)

Key performance indicators (continued)

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 £23,604,362 has been deducted from reserves.

Research and development

The company continued to provide research and development services to its parent company, Google Inc. During the year, the company spent £18,986,881 (2007: £10,136,949) 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 profit and loss account for the year ended 31 December 2008 is set out on page 7.

The directors do not recommend the payment of a dividend (2007: £nil).

Charitable donations

During the year the company made charitable donations of £5,662 (2007: £nil).

Directors

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

Nikesh Arora (resigned 6 July 2009)

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 309 of the Companies Act 1985 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.

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

Google UK Limited

Directors' report for the year ended 31 December 2008 (continued)

Employees (continued)

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 annual 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). The financial statements are required by law to 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 those 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 confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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 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 that 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 that information.

Auditors

Following the resignation of Ernst & Young LLP, Ernst & Young have been appointed as auditors of the company. In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of Ernst & Young as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Graham Law
Director

5.12.2009

Independent auditors' report to the members of Google UK Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and loss account, the Balance sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Google UK Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young
Registered auditor
Dublin

Ernst & Young
10 December 2009

Google UK Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £	2007 £
Turnover	2	149,696,428	104,161,241
Administration expenses excluding exceptional items		(160,179,549)	(108,066,271)
Exceptional operating items	3	(16,356,068)	-
Administration expenses		(176,535,617)	(108,066,271)
Operating loss	4	(26,839,189)	(3,905,030)
Interest receivable and similar income	5	502,268	493,462
Interest payable and similar charges	6	-	(12,603)
Loss on ordinary activities before taxation		(26,336,921)	(3,424,171)
Tax on loss on ordinary activities	9	2,732,559	(607,106)
Loss for the financial year	17	(23,604,362)	(4,031,277)

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.

Balance Sheet
as at 31 December 2008

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	10	13,459,114	7,373,660
Investments	11	-	-
		13,459,114	7,373,660
Current assets			
Debtors	12	17,189,679	19,974,967
Cash at bank and in hand		37,515,392	18,365,132
		54,705,071	38,340,099
Creditors: amounts falling due within one year	13	(41,733,508)	(25,038,446)
Net current assets		12,971,563	13,301,653
Total assets less current liabilities		26,430,677	20,675,313
Provisions for liabilities and charges	14	(4,335,922)	-
Net assets		22,094,755	20,675,313
Capital and reserves			
Called up share capital	16	1,000	1,000
Share option reserve	17	45,141,950	20,118,146
Profit and loss account	17	(23,048,195)	556,167
Shareholder's funds	18	22,094,755	20,675,313

The financial statements on pages 7 to 24 were approved by the board of directors on 5.12.2009 and were signed on its behalf by:


 Graham Law
 Director

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 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.

Consolidation

The financial statements contain information about Google UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228A of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent undertaking, Google Inc., a company incorporated in Delaware, USA.

Cash flow statement

Financial Reporting Standard 1 (Revised 1996) "Cash Flow Statements", exempts subsidiary undertakings from the requirement to prepare a cash flow statement where 90% or more of the voting rights are controlled by a group that prepares publicly available consolidated financial statements in which the subsidiary undertaking's results are included. The company has taken advantage of this exemption.

Tangible fixed assets and depreciation

Fixed assets are shown 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	-	33% straight line
Computer equipment and software	-	50% straight line
Fixtures, fittings and equipment	-	20% straight line
Production and network equipment	-	33% straight line
Assets in course of construction	-	no depreciation as assets not in use

Investments

Investments are stated at cost less any provision for impairment.

Turnover

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

Pensions

For the 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.

Taxation

The charge for taxation is based on the profit/(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 their treatment for accounting purposes and their treatment for taxation purposes. Deferred tax balances are not discounted.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

1 Principal accounting policies (continued)

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.

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, if shorter, 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.

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.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

2 Turnover

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

	2008 £	2007 £
Geographical market		
US cost plus revenue	20,885,569	11,150,644
Ireland cost plus revenue	128,810,859	93,010,597
	149,696,428	104,161,241

3 Exceptional operating items

	2008 £	2007 £
Loss on acquisitions (see note 21)	12,020,146	-
Provision for onerous lease (see note 14)	4,335,922	-
	16,356,068	-

Loss on acquisitions

During the year, Google Inc. acquired the DoubleClick Inc. group. Following this acquisition a number of companies within the DoubleClick group transferred their net liabilities to Google UK Limited. This resulted in a loss on acquisitions of £12,020,146. Further details are provided in note 21.

Provision for onerous lease

During the year, the company vacated a leased property 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 of £4,335,922.

4 Operating loss

	2008 £	2007 £
Operating loss is stated after charging:		
Depreciation of tangible assets	4,517,386	2,337,580
Auditors' remuneration – audit services	66,076	58,758
Operating lease charges – other	5,810,752	4,056,567
Research and development expenditure	18,986,881	10,136,949

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

5 Interest receivable and similar income

	2008 £	2007 £
Bank interest receivable	502,268	493,462

6 Interest payable and similar charges

	2008 £	2007 £
Interest payable on bank overdraft	-	12,603

7 Employee information

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

	2008 Number	2007 Number
Marketing	496	351
Research and development	149	92
Management and administration	127	96
	772	539

Employment costs

	2008 £	2007 £
Wages and salaries	70,089,864	51,788,613
Social security costs	10,020,037	7,261,395
Other pension costs	2,489,234	1,724,086
Cost of employee share schemes (see note 19)	25,023,804	11,405,671
	107,622,939	72,179,765

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

7 Employee information (continued)

Directors' remuneration

	2008 £	2007 £
Aggregate emoluments	1,061,179	588,850
Other pension costs	12,638	11,370

The directors' remuneration stated above relates to one director, who is therefore also the highest paid director. The remaining directors received 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. Pension costs are accruing to one director under the company's defined contribution scheme (2007: one). Four (2007: four) directors hold share options in the ultimate parent undertaking, Google Inc. Two (2007: two) of the directors exercised options during the year.

8 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 £2,489,234 (2007: £1,724,086).

As at 31 December 2008 pension contributions of £473,114 were outstanding (2007: £336,310).

9 Tax on loss on ordinary activities

	2008 £	2007 £
Current tax		
UK corporation tax at 28.5% (2007: 30%)	141,519	148,039
Adjustments in respect of previous periods	-	(46,208)
Total current tax	141,519	101,831
Deferred tax		
Origination and reversal of timing differences	(2,874,078)	460,967
Adjustments in respect of previous periods	-	(290,973)
Impact of change in UK tax rate	-	335,281
Total deferred tax (see note 15)	(2,874,078)	505,275
Tax (credit)/charge on loss on ordinary activities	(2,732,559)	607,106

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

9 Tax on loss on ordinary activities (continued)

The tax assessed for the year is higher (2007: higher) than the standard effective rate of corporation tax in the United Kingdom of 28.5% (2007: 30%). The differences are explained below:

	2008 £	2007 £
Loss on ordinary activities before tax	(26,336,921)	(3,424,171)
Tax on loss on ordinary activities at the standard rate of corporation tax of 28.5% (2007: 30%)	(7,506,022)	(1,027,251)
Effects of:		
Expenses not deductible for tax purposes	6,803,510	3,466,861
Share option timing differences	4,202,328	-
Other timing differences	38,985	159,095
Depreciation for the year in excess of capital allowances	615,172	643,499
Utilisation of brought forward losses	(2,935,378)	(1,157,626)
Exercised share options deductible for tax	(1,077,076)	(1,936,539)
Adjustments in respect of previous periods	-	(46,208)
Total current tax	141,519	101,831

Factors affecting current and future tax charges:

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

Notes to the financial statements for the year ended
31 December 2008 (continued)

10 Tangible assets

Cost	Leasehold improvements £	Computer equipment and software £	Fixtures, fittings and equipment £	Production and network equipment £	Assets in course of construction £	Total £
At 1 January 2008	6,215,216	720,190	1,823,398	3,103,442	344,821	12,207,067
Additions	1,240,817	69,745	2,945,957	6,301,720	44,601	10,602,840
At 31 December 2008	7,456,033	789,935	4,769,355	9,405,162	389,422	22,809,907
Depreciation						
At 1 January 2008	1,819,819	698,795	1,197,648	1,117,145	-	4,833,407
Charge for the year	881,735	33,400	867,968	2,734,283	-	4,517,386
At 31 December 2008	2,701,554	732,195	2,065,616	3,851,428	-	9,350,793
Net book value						
At 31 December 2008	4,754,479	57,740	2,703,739	5,553,734	389,422	13,459,114
At 31 December 2007	4,395,397	21,395	625,750	1,986,297	344,821	7,373,660

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 Investments

	Investment in subsidiary undertakings £
Cost	
Additions	119,805
At 31 December 2008	119,805
Impairment	
Charge for the year	(119,805)
At 31 December 2008	(119,805)
Net book value	
At 31 December 2008	-

During the year, the company acquired the entire ordinary share capital of 100 shares at £1 each of Digital Advertising and Marketing Limited for a consideration of £119,804. The company also acquired the entire ordinary share capital of 100 shares at £1 each of DoubleClick Europe Limited for a consideration of £1.

Following the acquisitions the directors reviewed the value of the investments and considered an impairment was required and reduced the value to £nil. Following the year end, the companies were put into liquidation.

12 Debtors

	2008 £	2007 £
Amounts owed by group undertakings	3,563,383	9,547,419
Deferred tax (see note 15)	7,398,012	4,523,934
Other debtors	4,049,569	4,126,383
Prepayments and accrued income	2,178,715	1,777,231
	17,189,679	19,974,967

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

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

13 Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	2,831,796	848,919
Amounts due to group undertakings	15,172,944	-
Corporation tax payable	289,558	148,039
Other taxes and social security	5,002,661	5,362,946
Other creditors	96,991	-
Accruals and deferred income	18,339,558	18,678,542
	41,733,508	25,038,446

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

14 Provisions for liabilities and charges

	2008 £	2007 £
Onerous lease provision		
Charged to the profit and loss account	4,335,922	-
At 31 December	4,335,922	-

During the year, the company vacated a leased property 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 future lease commitments as an onerous lease provision. The provision represents the residual lease commitments, net of income earned from sub letting and has been discounted on a pre tax basis.

15 Deferred tax asset

	2008 £	2007 £
At 1 January	4,523,934	5,029,209
Credit/(charge) to profit and loss account (see note 9)	2,874,078	(505,275)
At 31 December	7,398,012	4,523,934

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

15 Deferred tax asset (continued)

Deferred tax is analysed as follows:

	Unprovided 2008 £	Provided 2008 £	Unprovided 2007 £	Provided 2007 £
Accelerated capital allowances	-	867,920	-	447,590
Losses	-	440,678	-	3,982,178
Short term timing differences	-	6,089,414	1,224,515	94,166
	-	7,398,012	1,224,515	4,523,934

A deferred tax asset of £5,956,943 (2007: £nil) 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 £132,471 (2007: £ 94,166).

In 2007 an amount of £1,224,515 relating to share options was not recognised as it was in the opinion of the directors a tax deduction was unlikely to be available.

16 Called up share capital

	2008 £	2007 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000

17 Reserves

	Share option reserve £	Profit and loss account £
At 1 January 2008	20,118,146	556,167
Loss for the financial year	-	(23,604,362)
Adjustment in respect of employee share schemes	25,023,804	-
At 31 December 2008	45,141,950	(23,048,195)

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

18 Reconciliation of movements in shareholder's funds

	2008 £	2007 £
Loss for the financial year	(23,604,362)	(4,031,277)
Adjustment in respect of employee share schemes	25,023,804	11,405,671
Net increase in shareholder's funds	1,419,442	7,374,394
Opening shareholder's funds	20,675,313	13,300,919
Closing shareholder's funds	22,094,755	20,675,313

19 Share based payments

The ultimate parent undertaking, Google Inc., awards stock options under the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No.2), the 2003 Stock Plan (No.3) and the 2004 Stock Plan and plans assumed through acquisitions, all of which are collectively referred to as the 'Stock Plans'. Options are generally granted for a term of 10 years. Options granted under the Stock Plans generally vest 25% after the first year of service and rateably each month over the remaining 36 month period, contingent upon employment within the Google Inc. group ("Google") on the date of vest. Options granted under Stock Plans other than the 2004 Stock Plan may be exercised prior to vesting.

Under the Stock Plans, ordinary share options and Restricted Stock Units (RSUs) have been issued. An RSU award is an agreement to issue shares of Google Inc. stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with Google on the dates of vest. These RSUs vest from zero to 37.5 percent of the grant amount at the end of each of the four years from date of hire based on the employee's performance.

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.

The fair value of share based payment awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values:

	2008	2007
Expected stock price volatility	35%	34%
Option life (years)	10	10
Expected life (years)	5.3	5.1
Risk free interest rate	3.2%	4.4%
Expected dividends expressed as a dividend yield	-	-
Weighted average fair value per option granted – ordinary shares	\$205.67	\$223.27
Weighted average fair value per option granted – RSUs	\$455.69	\$551.03

Risk free interest rate

The risk free 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 2008 (continued)

19 Share based payments (continued)

Expected stock price volatility

Our 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

Until the third quarter of 2007, assumptions about the expected term have been based on that of companies that have option vesting and contractual terms, expected stock volatility and employee demographics and physical locations that are similar to Google due to limited relevant historical information. Commencing in the fourth quarter of 2007, the expected term was estimated based upon the historical behaviour of Google employees, based on historical exercise patterns and the expected future holding period.

The company's ordinary share option and RSU activities consisted of the following:

Ordinary share options	2008		2007	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding at 1 January	295,501	416.18	213,875	205.58
Transfer to other group undertakings	(15,853)	316.71	-	-
Granted	99,512	496.65	118,114	568.01
Exercised	(15,424)	97.94	(29,187)	62.89
Forfeited / cancellations	(12,897)	523.04	(7,301)	251.37
Outstanding at 31 December	350,839	441.46	295,501	416.18
Exercisable at 31 December	146,902	347.78	84,125	266.86

Restricted Stock Units	2008		2007	
	Number of restricted stock units	Weighted average exercise price \$	Number of restricted stock units	Weighted average exercise price \$
Outstanding at 1 January	51,276	470.36	39,309	369.54
Transfer to other group undertakings	(5,104)	527.95	-	-
Granted	103,221	455.69	27,007	551.03
Vested	(17,503)	428.29	(12,998)	377.75
Forfeited / cancellations	(3,505)	521.70	(2,042)	473.05
Outstanding at 31 December	128,385	456.32	51,276	470.36

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

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Notes to the financial statements for the year ended 31 December 2008 (continued)

19 Share based payments (continued)

The table below summaries information regarding the company's outstanding share options:

Ordinary share options

Range of exercise price	2008			2007		
	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)
\$0.00 - \$100.00	37.91	20,831	5.35	42.14	20,430	6.26
\$100.01 - \$200.00	181.96	26,787	6.03	182.05	30,587	7.04
\$200.01 - \$300.00	268.04	9,707	6.66	281.07	17,346	7.55
\$300.01 - \$400.00	337.77	48,834	7.11	337.37	51,644	8.03
\$400.01 - \$500.00	452.51	55,676	8.14	451.93	47,103	8.77
\$500.01 - \$600.00	549.03	178,727	8.91	563.68	121,749	9.52
\$600.01 - \$700.00	650.58	8,517	8.86	635.68	5,322	9.81
\$700.01 - \$800.00	714.82	1,760	8.93	724.69	1,320	9.85

Restricted Stock Units

Range of exercise price	2008			2007		
	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)
\$100.01 - \$200.00	180.00	243	0.25	171.41	2,000	0.94
\$200.01 - \$300.00	283.16	3,115	1.26	292.23	2,231	1.62
\$300.01 - \$400.00	357.28	4,852	1.61	353.01	7,060	2.14
\$400.01 - \$500.00	449.66	105,282	3.04	453.72	21,781	2.83
\$500.01 - \$600.00	537.27	10,088	2.77	524.42	10,435	3.39
\$600.01 - \$700.00	649.63	4,142	2.76	636.90	2,711	3.76
\$700.01 - \$800.00	714.82	663	2.89	701.78	5,058	3.92

Google UK Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

19 Share based payments (continued)

The weighted average share price during the period for options exercised over the year was \$464.85 (2007: \$538.75). The total charge for the year relating to employee share based payment plans was £25,023,804 (2007: £11,405,671), all of which related to equity share based payment transactions. After deferred tax, the total charge was £19,066,861 (2007: £11,405,671), as the related deferred tax asset has been (2007: has not been) recognised (see note 15).

20 Operating lease commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2008 £	2007 £
Land and buildings		
Within one year	73,879	124,949
After five years	7,177,966	6,163,814
	7,251,845	6,288,763

21 Acquisitions

During the year the following companies, which were all part of the DoubleClick Inc. group, were acquired by Google Inc.:

Digital Advertising and Marketing Limited
DoubleClick Europe Limited
Falk eSolutions Limited

Following this acquisition these companies transferred their net liabilities to Google UK Limited on 1 July 2008. This resulted in a loss on acquisition of £12,020,146.

In addition to acquiring the net liabilities of Digital Advertising and Marketing Limited and DoubleClick Europe Limited, the entire share capital of these companies were acquired by Google UK Limited for a consideration of £119,804 and £1 respectively, as detailed in note 11.

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Notes to the financial statements for the year ended 31 December 2008 (continued)

21 Acquisitions (continued)

	Book value and fair value £	Loss on acquisition £
Digital Advertising and Marketing Limited		
Debtors	787,696	
Cash	144,331	
Creditors due within one year	(2,826,813)	
Net liabilities acquired	(1,894,786)	
Consideration	(119,631)	
Loss on acquisition		(2,014,417)
DoubleClick Europe Limited		
Debtors	79,103	
Cash	1,977,477	
Creditors due within one year	(11,853,181)	
Net liabilities acquired	(9,796,601)	
Consideration	-	
Loss on acquisition		(9,796,601)
Falk eSolutions Limited		
Debtors	471,867	
Cash	33,747	
Creditors due within one year	(714,742)	
Net liabilities acquired	(209,128)	
Consideration	-	
Loss on acquisition		(209,128)
Total loss on acquisition		(12,020,146)

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Notes to the financial statements for the year ended 31 December 2008 (continued)

22 Related party transactions

The company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Disclosures", for subsidiaries with 90% or more of whose voting rights are controlled within the group, from the requirement to give details of transactions with entities that are part of the Google Inc. group.

23 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.