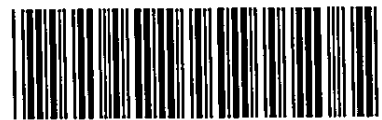


## **Google UK Limited**

### **Annual report and financial statements for the year ended 31 December 2009**

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# Google UK Limited

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# Google UK Limited

## Company information

### Directors

John Herlihy  
Graham Law  
Lloyd Hartley Martin  
John Kent Walker

### Secretary

TJG Secretaries Limited

### 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 2009

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2009

### 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 the prior year, the company vacated a property resulting in the need for an onerous lease provision, the balance at the year end is £3,499,910 (2008 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 2009

There were no new products and services introduced during the financial year ended 31 December 2009 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 £149,696,428 to £169,486,065 in 2009, an increase of £19,789,637. 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 £160,179,549 to £181,819,850 an increase of £21,640,301 in 2009. This increase relates to an increase in demand for the company's marketing services in the UK.

The profit and loss account and balance sheet are set out on pages 6 and 7, respectively. The loss for the financial year, amounting to £9,656,717 has been deducted from reserves.

# Google UK Limited

## Directors' Report for the year ended 31 December 2009 (continued)

### Research and development

The company continued to provide research and development services to its parent company, Google Inc. During the year, the company spent £21,313,771 (2008 £18,986,881) 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 2009 is set out on page 6.

The directors do not recommend the payment of a dividend (2008 £nil).

### Charitable donations

During the year the company made charitable donations of £28,237 (2008 £5,662), comprising £20,012 to purchase Android telephones donated to EU Universities, £8,000 donated to the Newspaper Press Fund for sponsorship of a charity event and £225 for sponsorship of the Stonewall Equality conference in November.

### 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 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.

### 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.

# Google UK Limited

## Directors' Report for the year ended 31 December 2009 (continued)

### Employees (continued)

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 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). 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 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 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.

### 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

The auditors, Ernst & Young, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



Graham Law  
Director

29 July 2010

# Google UK Limited

## Independent Auditors' Report to the Members of Google UK Limited

We have audited the financial statements of Google UK Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 22. 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 4, 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 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.

### 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 2009 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.

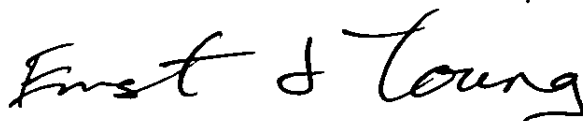
### Opinion on other matters prescribed by the Companies Act 2006

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

30 July 2010

# Google UK Limited

## Profit and Loss Account for the year ended 31 December 2009

	Note	2009 £	2008 £
Turnover	2	169,486,065	149,696,428
Administration expenses excluding exceptional items		(181,819,850)	(160,179,549)
Exceptional operating items	3	832,941	(16,356,068)
Administration expenses		(180,986,909)	(176,535,617)
Operating loss	4	(11,500,844)	(26,839,189)
Interest receivable and similar income	5	43,790	502,268
Interest payable and similar charges	6	(14,682)	-
Loss on ordinary activities before taxation		(11,471,736)	(26,336,921)
Tax on loss on ordinary activities	9	1,815,019	2,732,559
Loss for the financial year	17	(9,656,717)	(23,604,362)

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

## Balance Sheet as at 31 December 2009

	Note	2009 £	2008 £
<b>Fixed assets</b>			
Tangible assets	10	10,201,934	13,459,114
Investments	11	-	-
		<b>10,201,934</b>	<b>13,459,114</b>
<b>Current assets</b>			
Debtors	12	24,671,518	17,189,679
Cash at bank and in hand		65,917,206	37,515,392
		<b>90,588,724</b>	<b>54,705,071</b>
<b>Creditors amounts falling due within one year</b>	13	<b>(59,419,300)</b>	<b>(41,733,508)</b>
<b>Net current assets</b>		<b>31,169,424</b>	<b>12,971,563</b>
<b>Total assets less current liabilities</b>		<b>41,371,358</b>	<b>26,430,677</b>
Provisions for liabilities and charges	14	(3,499,910)	(4,335,922)
<b>Net assets</b>		<b>37,871,448</b>	<b>22,094,755</b>
<b>Capital and reserves</b>			
Called up share capital	16	1,000	1,000
Share option reserve	17	70,575,360	45,141,950
Profit and loss account - deficit	17	(32,704,912)	(23,048,195)
<b>Shareholder's funds</b>	18	<b>37,871,448</b>	<b>22,094,755</b>

The financial statements on pages 6 to 22 were approved by the board of directors on 29 July 2010 and were signed on its behalf by

  
Graham Law  
Director

Registered number 03977902

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2009

### 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 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.

#### 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 401 of the Companies Act 2006 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

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.

#### 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

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.

#### 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 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 2009 (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. Gains and losses for intercompany transactions and translations are borne by other group companies.

#### **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 2009 (continued)

#### 2 Turnover

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

	2009 £	2008 £
<b>Geographical market</b>		
US cost plus revenue	23,445,148	20,885,569
Ireland cost plus revenue	146,040,917	128,810,859
	<b>169,486,065</b>	<b>149,696,428</b>

#### 3 Exceptional operating items

	2009 £	2008 £
(Profit) / loss on acquisitions	(927,429)	12,020,146
Provision for onerous lease (see note 14)	94,488	4,335,922
	<b>(832,941)</b>	<b>16,356,068</b>

##### (Profit) / loss on acquisitions

In the prior 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 in 2008 of £12,020,146. During the year, further 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, resulting in a profit on acquisition in 2009 of £927,429.

##### Provision for onerous lease

In the prior year, 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 14.

#### 4 Operating loss

	2009 £	2008 £
Operating loss is stated after charging		
Depreciation of tangible assets	4,777,288	4,517,386
Auditors' remuneration – audit services	65,000	66,076
Operating lease charges – other	6,237,113	5,810,752
Research and development expenditure	21,313,771	18,986,881

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 5 Interest receivable and similar income

	2009 £	2008 £
Bank interest receivable	43,790	502,268

#### 6 Interest payable and similar charges

	2009 £	2008 £
Other interest payable	14,682	-

#### 7 Employee information

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

	2009 Number	2008 Number
Marketing	502	496
Research and development	171	149
Management and administration	175	127
	848	772

#### Employment costs

	2009 £	2008 £
Wages and salaries	82,883,508	70,089,864
Social security costs	11,762,485	10,020,037
Other pension costs	3,030,000	2,489,234
Cost of employee share schemes (see note 19)	25,433,410	25,023,804
	123,109,403	107,622,939

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 7 Employee information (continued)

##### Directors' remuneration

	2009 £	2008 £
Aggregate emoluments	1,399,698	1,061,179
Other pension costs	5,484	12,638

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 benefits are only accruing to the highest paid director, under the company's defined contribution scheme (2008: one). Four (2008: four) directors hold share options in the ultimate parent undertaking, Google Inc. Three (2008: two) of the directors, including the highest paid director, 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 £3,030,000 (2008: £2,489,234).

As at 31 December 2009 pension contributions of £467,912 were outstanding (2008: £473,114).

#### 9 Tax on loss on ordinary activities

	2009 £	2008 £
<b>Current tax</b>		
UK corporation tax at 28% (2008: 28.5%)	2,988,920	141,519
Adjustments in respect of previous periods	(11,200)	-
<b>Total current tax</b>	<b>2,977,720</b>	<b>141,519</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4,792,739)	(2,874,078)
<b>Total deferred tax (see note 15)</b>	<b>(4,792,739)</b>	<b>(2,874,078)</b>
<b>Tax credit on loss on ordinary activities</b>	<b>(1,815,019)</b>	<b>(2,732,559)</b>

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 9 Tax on loss on ordinary activities (continued)

The tax assessed for the year is higher (2008 higher) than the standard effective rate of corporation tax in the United Kingdom of 28% (2008 28.5%). The differences are explained below

	2009 £	2008 £
<b>Loss on ordinary activities before tax</b>	<b>(11,471,736)</b>	<b>(26,336,921)</b>
Tax on loss on ordinary activities at the standard rate of corporation tax of 28% (2008 28.5%)	(3,212,086)	(7,506,022)
<b>Effects of</b>		
Expenses not deductible for tax purposes	997,659	6,803,510
Share option timing differences	5,978,283	4,202,328
Other timing differences	389	38,985
Depreciation for the year in excess of capital allowances	115,303	615,172
Utilisation of brought forward losses	-	(2,935,378)
Exercised share options deductible for tax	(890,628)	(1,077,076)
Adjustments in respect of previous periods	(11,200)	-
<b>Total current tax</b>	<b>2,977,720</b>	<b>141,519</b>

#### 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 losses for the year ended 31 December 2009 are taxed at an effective rate of 28% (2008 28.5%).

Notes to the financial statements for the year ended  
31 December 2009 (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 2009	7,456,033	789,935	4,769,355	9,405,162	389,422	22,809,907
Additions	91,914	-	186,698	619,996	790,875	1,689,483
Disposals	-	-	-	(486,934)	-	(486,934)
Transfers	3,193	-	41,326	263,138	(307,657)	-
<b>At 31 December 2009</b>	<b>7,551,140</b>	<b>789,935</b>	<b>4,997,379</b>	<b>9,801,362</b>	<b>872,640</b>	<b>24,012,456</b>
<b>Depreciation</b>						
At 1 January 2009	2,701,554	732,195	2,065,616	3,851,428	-	9,350,793
Charge for the year	949,753	14,369	931,035	2,882,131	-	4,777,288
Disposals	-	-	-	(317,559)	-	(317,559)
<b>At 31 December 2009</b>	<b>3,651,307</b>	<b>746,564</b>	<b>2,996,651</b>	<b>6,416,000</b>	<b>-</b>	<b>13,810,522</b>
<b>Net book value</b>						
<b>At 31 December 2009</b>	<b>3,899,833</b>	<b>43,371</b>	<b>2,000,728</b>	<b>3,385,362</b>	<b>872,640</b>	<b>10,201,934</b>
At 31 December 2008	4,754,479	57,740	2,703,739	5,553,734	389,422	13,459,114



## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 11 Investments

	Investment in subsidiary undertakings £
<b>Cost</b>	
At 31 December 2009 and 2008	119,805
<b>Impairment</b>	
At 31 December 2009 and 2008	(119,805)
<b>Net book value</b>	
At 31 December 2009 and 2008	-

In the prior year, the company acquired the entire ordinary share capital of 100 shares at £1 each of Digital Advertising and Marketing Limited and DoubleClick Europe Limited. The investments in the companies were impaired in 2008 and reduced to a value of £nil. The companies are in the process of being liquidated.

#### 12 Debtors

	2009 £	2008 £
Amounts owed by group undertakings	5,215,143	3,563,383
Deferred tax (see note 15)	12,190,751	7,398,012
Other debtors	4,861,580	4,049,569
Prepayments and accrued income	2,404,044	2,178,715
	<b>24,671,518</b>	<b>17,189,679</b>

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

Other debtors include £540,000 (2008: £810,000) due after more than one year.

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 13 Creditors: amounts falling due within one year

	2009 £	2008 £
Trade creditors	3,160,342	2,831,796
Amounts due to group undertakings	19,074,364	15,172,944
Corporation tax payable	2,972,695	289,558
Other taxes and social security	6,778,680	5,002,661
Other creditors	95,238	96,991
Accruals and deferred income	27,337,981	18,339,558
	<b>59,419,300</b>	<b>41,733,508</b>

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

#### 14 Provisions for liabilities and charges

	2009 £	2008 £
<b>Onerous lease provision</b>		
At 1 January	4,335,922	-
Charge to the profit and loss account	94,488	4,335,922
Utilised during the year	(930,500)	-
<b>At 31 December</b>	<b>3,499,910</b>	<b>4,335,922</b>

In the prior 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

	2009 £	2008 £
At 1 January	7,398,012	4,523,934
Credit to profit and loss account (see note 9)	4,792,739	2,874,078
<b>At 31 December</b>	<b>12,190,751</b>	<b>7,398,012</b>

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 15 Deferred tax asset (continued)

Deferred tax is analysed as follows

	Unprovided 2009 £	Provided 2009 £	Unprovided 2008 £	Provided 2008 £
Accelerated capital allowances	-	2,012,019	-	867,920
Losses	1,429,982	-	-	440,678
Short term timing differences	5,789	10,178,732	-	6,089,414
	1,435,771	12,190,751	-	7,398,012

A deferred tax asset of £10,112,775 (2008 £5,956,943) 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 £65,957 (2008 £132,471).

In his budget of 22 June 2010, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have a significant effect on the company's future tax position. As at 31 December 2009, the tax changes announced in the Budget are not yet regarded as 'substantively enacted' and as such, in accordance with accounting standards, the changes have not been reflected in the company's financial statements as at 31 December 2009.

The budget proposed a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year, from April 2011, which will be enacted annually. The effect of the reduction in the tax rate to 24% on the company's deferred tax asset would be to reduce the deferred tax asset by approximately £1,000,000. The rate change will also impact the amount of the future cash tax payment to be made by the company.

The effect on the company of these proposed changes to the UK tax system will be reflected in the company's financial statements in the future years, as appropriate, once the proposals have been substantively enacted.

### 16 Called up share capital

	2009 £	2008 £
<b>Authorised</b>		
1,000 ordinary shares of £1 each	1,000	1,000
<b>Allotted, called up and fully paid</b>		
1,000 ordinary shares of £1 each	1,000	1,000

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 17 Reserves

	Share option reserve £	Profit and loss account £
At 1 January 2009	45,141,950	(23,048,195)
Loss for the financial year	-	(9,656,717)
Adjustment in respect of employee share schemes	25,433,410	-
<b>At 31 December 2009</b>	<b>70,575,360</b>	<b>(32,704,912)</b>

#### 18 Reconciliation of movements in shareholder's funds

	2009 £	2008 £
Loss for the financial year	(9,656,717)	(23,604,362)
Adjustment in respect of employee share schemes	25,433,410	25,023,804
Net increase in shareholder's funds	15,776,693	1,419,442
Opening shareholder's funds	22,094,755	20,675,313
<b>Closing shareholder's funds</b>	<b>37,871,448</b>	<b>22,094,755</b>

#### 19 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) and 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 the Exchange discussed below, 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 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 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 50.0 percent 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 Google 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.

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 19 Share based payments (continued)

#### 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

#### 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

	2009	2008
Expected stock price volatility	37%	35%
Option life (years)	10	10
Expected life (years)	5.8	5.3
Risk free interest rate	2.6%	3.2%
Expected dividends expressed as a dividend yield	-	-
Weighted average fair value per option granted – ordinary shares	\$229.91	\$205.67
Weighted average fair value per option granted – RSUs	\$459.19	\$455.69

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

Ordinary share options	2009		2008	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding at 1 January	350,839	441.46	295,501	416.18
Net transfer to other group undertakings	(32,506)	441.46	(15,853)	316.71
Granted	277,264	325.28	99,512	496.65
Exercised	(29,180)	207.55	(15,424)	97.94
Forfeited / cancellations	(230,126)	512.91	(12,897)	523.04
Outstanding at 31 December	336,291	311.06	350,839	441.46
Exercisable at 31 December	112,681	268.73	146,902	347.78

# Google UK Limited

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 19 Share based payments (continued)

Restricted Stock Units	2009		2008	
	Number of restricted stock units	Weighted average exercise price \$	Number of restricted stock units	Weighted average exercise price \$
Outstanding at 1 January	128,385	456 32	51,276	470 36
Net transfer to other group undertakings	(46,993)	456 32	(5,104)	527 95
Granted	146,311	459 19	103,221	455 69
Vested	(33,507)	447 42	(17,503)	428 29
Forfeited / cancellations	(9,864)	437 21	(3,505)	521 70
Outstanding at 31 December	184,332	465 02	128,385	456 32

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 the company's outstanding share options

#### Ordinary share options

Range of exercise price	2009			2008		
	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 - \$94 80	50 17	12,574	4 50	37 91	20,831	5 35
\$117 84 - \$198 41	181 69	19,426	5 07	181 96	26,787	6 03
\$205 96 - \$298 91	270 78	8,478	5.73	268 04	9,707	6 66
\$300 97 - \$399 00	310 54	251,066	7 79	337 77	48,834	7 11
\$401 78 - \$499 07	436.36	38,225	9 19	452 51	55,676	8 14
\$500 03 - \$594 05	533 74	6,297	7.70	549 03	178,727	8 91
\$615 95 - \$699 35	648.11	225	7.97	650 58	8,517	8 86
\$707 00 - \$732 94	n/a	n/a	n/a	714 82	1,760	8 93

## Google UK Limited

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 19 Share based payments (continued)

##### Restricted Stock Units

Range of exercise price	Weighted average exercise price \$	2009	Weighted average remaining life (years)	Weighted average exercise price \$	2008	Weighted average remaining life (years)
		Number of restricted stock units			Number of restricted stock units	
\$180 00 - \$180 00	n/a	n/a	n/a	180 00	243	0 25
\$231 29 - \$298 99	283 21	272	2 83	283 16	3,115	1 26
\$300 97 - \$399 00	357 44	50,283	3.07	357 28	4,852	1 61
\$402 00 - \$499 07	441 75	76,876	2 84	449 66	105,282	3 04
\$500 03 - \$597 76	588.95	53,974	3 64	537 27	10,088	2 77
\$611 68 - \$699 35	645.25	2,467	2 46	649 63	4,142	2 76
\$707 00 - \$741 79	714 66	460	1 87	714 82	663	2 89

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 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 \$399.42 (2008 \$464.85). The total charge for the year relating to employee share based payment plans was £25,433,410 (2008 £25,023,804), all of which related to equity share based payment transactions. After deferred tax, the total charge was £15,320,635 (2008 £19,066,861), as the related deferred tax asset has been (2008 has been) recognised (see note 15).

#### 20 Operating lease commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2009 £	2008 £
<b>Land and buildings</b>		
Within one year	47,600	73,879
After five years	7,177,966	7,177,966
	<b>7,225,566</b>	<b>7,251,845</b>

## **Google UK Limited**

### **Notes to the financial statements for the year ended 31 December 2009 (continued)**

#### **21 Related party transactions**

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

#### **22 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