

Registered number: 03977902

**GOOGLE UK LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 30 JUNE 2016**

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# **Google UK Limited**

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# **Google UK Limited**

## **Strategic Report For the year ended 30 June 2016**

The Directors present their strategic report of Google UK Limited (the "Company") for the year ended 30 June 2016.

### **Change of the year end**

Due to the change in the financial year end to 30 June from 31 December in the prior period, audited results cover the year ended 30 June 2016 with comparative data being the audited results for the 18 month period to 30 June 2015.

### **Review of the business**

The Company is engaged in the provision of marketing services and the provision of research and development services to other group undertakings. There were no significant changes in the operation of the Company during the financial year under review.

The key financial and other performance indicators for the year ended 30 June 2016 and the 18 month period to 30 June 2015 were as follows:

Turnover decreased from £1,178 million to £1,037 million in the year, a decrease of £141 million. Administrative expenses decreased from £1,049 million to £889 million, a decrease of £160 million in the year. These decreases relate to a 12 month versus 18 month accounting period. A revised pricing structure, a higher demand for the Company's services and rise in employment and other costs impact the service fee payable to the Company and therefore its results for the period. The revised pricing structure was implemented following the closure of a tax audit and the impact of this is reflected in the turnover figure for the year ended 30 June 2016.

The statement of comprehensive income and the statement of financial position are set out on pages 9 and 10 respectively. The profit for the financial year of £124 million has been added to retained earnings.

There were no new products sold by the Company and no new services introduced during the year ended 30 June 2016 that had a material impact on the financial statements.

In January 2016, the Company agreed the closure of an ongoing tax audit with Her Majesty's Revenue and Customs ("HMRC"). This resulted in a liability to HMRC of £130 million in respect of additional taxes and interest due for prior accounting periods. Within the £130 million, and reflected in the £100 million tax charge for the 18 month period ended June 2015 was £69 million in respect of additional taxes due for prior periods. The tax on profits of £25 million reflects a decrease of £75 million (from £100 million), arising from the comparative including a £69 million charge from prior periods and the reduction from 18 months to a 12 month accounting period.

In 2013, the Company entered into a 999 year lease with Kings Cross Central Limited Partnership ("KCCLP"). The total cost of the land recorded at 30 June 2016 is £290 million. It is the Company's intention to build a new office space on the land and stage 3 designs for this new office space are complete. A premium of £4 million was paid in January 2017 to further extend the development period by 3 months from January 2017 to April 2017. The Company remains committed to building new office space on the land.

During the 18 month period ended 30 June 2015 the Company entered into two lease agreements for additional office space in the Kings Cross area. Staff began moving into one of the new office spaces during the year ended 30 June 2016. The delivery of the second office space is expected to be in 2018.

The Company's average headcount increased from 2,329 in the period ended 30 June 2015 to 2,943 in the year ended 30 June 2016, an increase of 614.

# Google UK Limited

## Strategic Report For the year ended 30 June 2016

### Principal risks and uncertainties

As a provider of marketing services and research and development services, 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 other group undertakings 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.*
- *These businesses generate a significant portion of their revenues from advertising and the reduction in spending by or loss of advertisers could seriously harm them.*
- *A variety of new and existing U.S and foreign laws could subject these businesses to claims or otherwise harm them.*
- *Privacy concerns and breached security measures relating to these businesses technology could damage the business's reputation and deter current and potential users from using the businesses products and services.*
- *Acquisitions and investments could result in operating difficulties, dilution and other harmful consequences to the Company.*

By order of the board



Paul T. Manicle

Director

Date: 29. 03. 2017

## **Google UK Limited**

### **Directors' Report For the year ended 30 June 2016**

The directors present their report of the Company for the year ended 30 June 2016.

#### **Directors**

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

Ken Yi  
Paul T. Manicle (appointed 16.11.2015)  
Ronan Harris (appointed 29.10.2016, resigned 06.02.2017)  
Graham Law (resigned 16.11.2015)

#### **Company secretary**

The company secretary for the year and up to the date of this report is TJG Secretaries Limited.

#### **Political and charitable contributions**

During the year the Company made no political donations (period ended 30 June 2015: £nil) and made charitable donations and sponsorship in the UK of £2.2 million (period ended 30 June 2015: £3 million). In addition to this direct charitable giving, Google provides sponsorship and other types of support to a range of charities and causes in the UK, mainly related to technology, science, education and culture.

#### **Research and development**

The Company continued to provide research and development services to other group undertakings. During the year, the Company spent £224 million (period ended 30 June 2015: £262 million) on research and development. Such expenses may fall into the following categories: research, development and engineering.

#### **Future developments**

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

#### **Going Concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report.

The Company is expected to generate positive cash flows on its own account for the foreseeable future. In addition, the directors of the Company have received written assurances from Google Inc that it will continue to provide adequate financial support to the Company for a period of at least twelve months from the date of approval of these financial statements to enable the Company to discharge its financial obligations to all creditors as they fall due.

On this basis, the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

# **Google UK Limited**

## **Directors' Report For the year ended 30 June 2016**

### **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 facilitates a share incentive plan operated by Alphabet Inc. and operates a cash bonus plan that reward all employees for the success of the Company and their own personal performance.

### **Results and dividends**

The Company's profit for the financial year is £124 million (period ended 30 June 2015: £10 million). The directors do not propose the payment of a dividend for the year (period ended 30 June 2015: £nil).

### **Events since year end date**

In December 2016, the Company entered into a deed of release with another group company, BeatThatQuote.com Limited, which is in the process of winding down. The amount owed to the Company by BeatThatQuote.com Limited as at December 2016 was £16 million in respect of an intercompany loan that was granted in June 2013 and £8.6 million in respect of intercompany trade debt. BeatThatQuote.com Limited paid £2 million of the amount due to the Company from the remaining funds available to settle its liabilities. The balance of £22.6 million was written off by the Company directly to equity.

### **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 Alphabet Inc. group throughout the financial period.

# Google UK Limited

## Directors' Report For the year ended 30 June 2016

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company's sole shareholder was notified of and did not object to, the use of the EU-adopted IFRS disclosure exemptions. Details of the recognition or measurement differences arising on the adoption of FRS 101 are included in note 22 to these financial statements.

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 financial 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 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 is obliged to take as a director in order to make himself 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



Paul T. Manicle  
Director

Date: 09.03.2017

# 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 30 June 2016 which comprise Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 page 6), 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 Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 30 June 2016 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

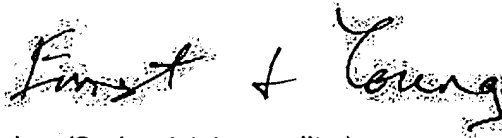


## Google UK Limited

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

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

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



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

Date: 29 March 2017

## Google UK Limited

### Statement of Comprehensive Income For the year ended 30 June 2016

|  | Notes | Year ended<br>30 June<br>2016<br>GBP | 18 month<br>period ended<br>30 June 2015<br>GBP |
|--|-------|--------------------------------------|---|
| Turnover   | 3     | 1,037,260,024                        | 1,178,055,299                                   |
| Administrative expenses                              |       | (888,999,594)                        | (1,049,407,097)                                 |
| <b>Operating profit</b>                              | 4     | 148,260,430                          | 128,648,202                                     |
| Interest receivable and similar income               | 5     | 1,838,929                            | 1,160,205                                       |
| Interest payable and similar charges                 | 6     | (1,321,782)                          | (19,012,524)                                    |
| <b>Profit on ordinary activities before taxation</b> |       | 148,777,577                          | 110,795,883                                     |
| Tax on profit on ordinary activities                 | 9     | (25,083,289)                         | (100,384,039)                                   |
| <b>Profit for the financial year / period</b>        |       | <u>123,694,288</u>                   | <u>10,411,844</u>                               |

All amounts relate to continuing operations.

#### Other comprehensive income

There were no items of other comprehensive income for the current year or prior period and therefore no separate statement of other comprehensive income has been prepared.

The notes on pages 12 to 33 form an integral part of these financial statements.

**Google UK Limited**  
**Statement of Financial Position**  
**As at 30 June 2016**

Registered number: 03977902

|  |       | 30 June<br>2016<br>GBP | 30 June<br>2015<br>GBP |
|--|-------|------------------------|------------------------|
|  | Notes |                        |                        |
| <b>Fixed assets</b>                            |       |                        |                        |
| Tangible assets                                | 10    | 491,108,457            | 406,198,819            |
| <b>Current assets</b>                          |       |                        |                        |
| Debtors  |       |                        |                        |
| Amounts falling due within one year            | 11    | 158,206,068            | 123,422,708            |
| Amounts falling due after one year             | 11    | 189,361,784            | 72,793,409             |
|  |       | 347,567,852            | 196,216,117            |
| Cash and cash equivalents                      |       | 22,343,369             | 89,967,316             |
|  |       | 369,911,221            | 286,183,433            |
| Creditors: amounts falling due within one year | 12    | (413,827,668)          | (339,120,710)          |
| Net current liabilities                        |       | (43,916,447)           | (52,937,277)           |
| Total assets less current liabilities          |       | 447,192,010            | 353,261,542            |
| Creditors: amounts falling due after one year  | 13    | (145,462,725)          | (184,594,735)          |
| Provision for liabilities and charges          | 15    | (19,866,559)           | (8,545,958)            |
| <b>Net assets</b>                              |       | <b>281,862,726</b>     | <b>160,120,849</b>     |
| <b>Capital and reserves</b>                    |       |                        |                        |
| Called up share capital                        | 16    | 50,001,000             | 50,001,000             |
| Other capital reserves                         |       | 142,607,491            | 144,559,902            |
| Retained earnings                              |       | 89,254,235             | (34,440,053)           |
| <b>Total shareholders' funds</b>               |       | <b>281,862,726</b>     | <b>160,120,849</b>     |

The financial statements on pages 9 to 11 and supporting notes to the financial statements on pages 12 to 33 were approved by the board of directors and were signed on its behalf by:

Paul T. Manicle

Director

Date:

29.03.2017



## Google UK Limited

### Statement of Changes in Equity As at 30 June 2016

|  | Called up<br>share<br>capital<br>GBP | Other capital<br>reserves<br>GBP | Retained<br>earnings<br>GBP | Total<br>GBP       |
|--|--------------------------------------|----------------------------------|-----------------------------|--------------------|
| Balance at 1 January 2014                              | 50,001,000                           | 154,808,283                      | (44,851,897)                | 159,957,386        |
| Profit for the period                                  | -                                    | -                                | 10,411,844                  | 10,411,844         |
| Share based compensation expense, net<br>of tax effect | -                                    | 155,444,994                      | -                           | 155,444,994        |
| Share based compensation recharge                      | -                                    | (165,693,375)                    | -                           | (165,693,375)      |
| <b>Balance at 30 June 2015</b>                         | <b>50,001,000</b>                    | <b>144,559,902</b>               | <b>(34,440,053)</b>         | <b>160,120,849</b> |
| Balance at 1 July 2015                                 | 50,001,000                           | 144,559,902                      | (34,440,053)                | 160,120,849        |
| Profit for the year                                    | -                                    | -                                | 123,694,288                 | 123,694,288        |
| Share based compensation expense, net<br>of tax effect | -                                    | 157,249,697                      | -                           | 157,249,697        |
| Share based compensation recharge                      | -                                    | (159,202,108)                    | -                           | (159,202,108)      |
| <b>Balance at 30 June 2016</b>                         | <b>50,001,000</b>                    | <b>142,607,491</b>               | <b>89,254,235</b>           | <b>281,862,726</b> |

The notes on pages 12 to 33 form an integral part of the financial statements.

# Google UK Limited

## Notes to the Financial Statements For the year ended 30 June 2016

### 1. General information

Google UK Limited (or the 'Company') is engaged in the provision of research and development services and the provision of marketing services to other group undertakings. The Company is a private company and is incorporated and domiciled in the UK. The address of its registered office is Belgrave House, 76 Buckingham Palace Road, London, SW1W 9TQ.

### 2. Principal accounting policies and basis of preparation

The financial statements of the Company were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") (accounting standards issued by the Financial Reporting Council), and in accordance with the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The Company is a qualifying entity for the purposes of FRS 101.

The Company is included in the consolidated financial statements of its ultimate parent undertaking, Alphabet Inc, which are publicly available.

### Accounting policies

The significant accounting policies used in the preparation of the Company's financial statements are set out below. The Company transitioned from previous United Kingdom Generally Accepted Accounting Practice ("UK GAAP") to FRS 101 for all periods presented. Details of the transition to FRS 101 are detailed in note 22.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IAS 7 'Statement of Cash Flows'
- Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods and services received was determined)
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group
- Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation)
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IFRS 7 'Financial Instruments: Disclosures'
- Paragraphs 30 to 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
  - 10(d) (statement of cash flows);
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassified items in its financial statements);
  - 16 (statement of compliance with IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (requirements for a third statement of financial position);
  - 111 (cash flow statement information); and
  - 134 to 136 (capital management disclosures).

## **Google UK Limited**

### **Notes to the Financial Statements For the year ended 30 June 2016**

#### **2. Principal accounting policies and basis of preparation (continued)**

##### **New and amended IFRS standards and interpretations**

There are a number of changes to IFRS which became effective in 2016, however, they either did not have an effect on the financial statements or they are not currently relevant for the Company.

##### **Foreign currency translation**

The financial statements are presented in GBP ("£"), which is also the Company's functional currency and presentation currency. All values are in GBP ("£") to the nearest pound except where otherwise indicated.

Transactions denominated in foreign currencies are initially 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 taken to the statement of comprehensive income and included in administrative expenses. Non-monetary assets and liabilities, which are measured using historic cost, are translated at the exchange rates as at the date of the initial transaction and are not subsequently retranslated.

##### **Turnover**

Turnover represents the amount of fee payable to the Company in respect of services provided during the year to other group companies. The Company recognises revenue in accordance with underlying service agreements.

##### **Current and deferred tax**

The tax expense for the period comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except where the deferred tax asset or liability arises from the initial recognition of an asset or liability which affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable future taxable profits available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets are reviewed at each reporting date and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

## **Google UK Limited**

### **Notes to the Financial Statements For the year ended 30 June 2016**

#### **2. Principal accounting policies and basis of preparation (continued)**

##### **Current and deferred tax (continued)**

Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

##### **Pensions**

The Company operates a defined contribution pension scheme. The expected cost of providing pensions to employees is charged to the statement of comprehensive income as incurred over the period of employment of pensionable employees. Once contributions have been paid, the Company has no further payment obligations.

##### **Operating leases**

Operating leases do not transfer substantially all the risks and rewards of ownership of the leased asset. Operating lease rentals are charged to the statement of comprehensive income 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 statement of comprehensive income on a straight line basis over the lease term.

##### **Asset retirement obligation**

The Company assesses its lease agreements for requirements to return leased premises to their original condition. Assessments are carried out by an independent third party valuer to determine the level of work required and to evaluate the likely cost. A provision for asset retirement obligations is recognised over the life of the lease for the best estimate of the cost of rectification at the end of the lease term.

##### **Provisions for liabilities**

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will occur; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

##### **Research and development**

Research costs are expensed in the period in which they are incurred. The Company currently incurs no development costs which would meet the criteria for capitalisation as development expenditure under IAS 38.

##### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 2. Principal accounting policies and basis of preparation (continued)

##### Financial instruments

###### *Classification*

The Company holds the following categories of financial instruments:

- Loans and receivables
- Financial liabilities at amortised cost

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

###### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The asset is initially recognised at its fair value including directly attributable and incremental transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

If the original advanced amount to a fellow group entity does not equate to the fair value on initial recognition, the difference is reflected as a dividend to the parent of the Company.

Interest income is recognised using the effective interest method.

###### *(ii) Financial liabilities at amortised cost*

Financial liabilities at amortised cost include borrowings and trade and other creditors. These financial instruments are initially measured at fair value, net of any transaction costs in the case of borrowings, and subsequently measured at amortised cost using the effective interest rate. Borrowings are classified as current liabilities (creditors due within one year), unless the Company has an unconditional right to defer settlement of the liability for at least one year after the reporting date.

Financial liabilities are derecognised when the Company's obligations specified in the contract expire, are discharged or cancelled.

###### *Interest expense*

Interest expense is recognised using the effective interest method.

###### *Impairment of financial instruments*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets which can be reliably estimated.



## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 2. Principal accounting policies and basis of preparation (continued)

##### Tangible assets - property, plant and equipment

Property, plant and equipment is initially recorded at cost. Subsequent to initial recognition property, plant and equipment is stated at cost less accumulated depreciation and impairment if any.

The cost of property, plant and equipment includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to profit or loss as incurred.

On disposal of an item of property, plant and equipment, the difference between the net disposals and its carrying amount is taken to the statement of comprehensive income.

Land and construction in progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

|                                    |  |
|------------------------------------|--|
| Land                               | - Not depreciated                          |
| Buildings                          | - 4% straight line                         |
| Leasehold improvements             | - Lesser of 5 years or lease term          |
| Information technology assets:     |  |
| - Production and network equipment | - 33% straight line                        |
| - Computer equipment and software  | - 50% straight line                        |
| Furniture and fixtures             | - 20% straight line                        |
| Construction in progress           | - No depreciation as assets are not in use |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances in the year indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method of property, plant and equipment are reviewed at each reporting date.

##### Borrowing costs

Specific borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period they occur.

##### Impairment of non-financial assets

The Company tests the carrying value of its long-term tangible assets for impairment if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount, which in turn is the higher of an asset's fair value less costs of disposal and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

## **Google UK Limited**

### **Notes to the Financial Statements For the year ended 30 June 2016**

#### **2. Principal accounting policies and basis of preparation (continued)**

##### **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.

Restricted stock units ("RSUs") are measured based on the fair market values of the underlying stock on the dates of grant.

The share-based payment relating to stock options is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton ("BSM") option pricing model. The BSM model requires assumptions including expected volatility and expected term.

The Company is required to estimate the expected forfeiture rate (based on historical experience) and only recognise expense for those shares expected to vest. To the extent the actual forfeiture rate is different from the estimate; share-based payment is adjusted prospectively. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with a corresponding entry in equity ("Other capital reserves" account).

The Company reimburses Google Inc. for stock options / RSUs issued to its employees. Share-based payment expense and share-based payment reimbursements are recorded separately in "Other capital reserves". Share-based payment reimbursements represent returns of capital to Google Inc. to the extent that the Company has sufficient balances within "Other capital reserves" to cover such reimbursements.

Reimbursements will represent distributions to Google Inc. in instances where cumulative reimbursements exceed the Company's "Other capital reserves" balance.

###### *Cash settled transactions*

The Company accounts for all share-based payments as equity settled transactions.

##### **Comparative data**

The audited results cover the 12 month year to 30 June 2016 with comparative data being the audited results for the 18 month period to 30 June 2015.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 3. Turnover

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

##### Geographical market

|   | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|---|-----------------------------------|---|
| Research and development service fee (US) | 246,658,304                       | 288,373,505                                     |
| Marketing and services fee (Ireland)      | 783,865,891                       | 889,681,794                                     |
| Services fee (UK)                         | 6,735,829                         |   |
|   | <u>1,037,260,024</u>              | <u>1,178,055,299</u>                            |

#### 4. Operating profit

Operating profit is arrived at after charging the following:

|  | Notes | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|--|-------|-----------------------------------|---|
| Advertising and promotional expense                  |       | 161,177,066                       | 191,924,433                                     |
| Professional services                                |       | 34,927,888                        | 50,365,608                                      |
| Legal settlements                                    |       | 22,557                            | 5,118,996                                       |
| Auditor's remuneration                               |       | 109,705                           | 92,000  |
| Depreciation and impairment of tangible fixed assets |       | 28,433,239                        | 39,053,584                                      |
| Employee benefit expense                             | 7     | 541,209,809                       | 617,846,611                                     |
| Operating lease charges                              |       | 35,397,342                        | 35,857,607                                      |
| Other administrative expenses                        |       | 87,721,988                        | 109,148,258                                     |

Expenses of £16.6 million relating to temporary services for the period ending 30 June 2015, previously classified as employee benefit expense, have been reclassified to professional services for consistency with current year presentation. The expenses are most appropriately considered within the function of professional services.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 4. Operating profit (continued)

Expenses of £3.7 million relating to fixed assets for the period ending 30 June 2015, previously classified as other administrative expenses, have been reclassified to depreciation and impairment for consistency with current year presentation. The expenses are most appropriately considered depreciation and impairment.

Fees paid to auditors in relation to non-audit services are £nil (for the period ended 30 June 2015: £nil).

#### 5. Interest receivable and similar income

|                              | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|------------------------------|-----------------------------------|---|
| Interest on intergroup loans | 1,513,019                         | 663,486   |
| Interest income              | 325,910                           | 496,719   |
|                              | <u>1,838,929</u>                  | <u>1,160,205</u>                                |

#### 6. Interest payable and similar charges

|                              | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|------------------------------|-----------------------------------|---|
| Interest on intergroup loans | 2,073,395                         | 5,389,670                                       |
| Other interest payable       | (751,613)                         | 13,622,854                                      |
|                              | <u>1,321,782</u>                  | <u>19,012,524</u>                               |

During the period ended 30 June 2015, there was a change in estimated cash flows of an intercompany receivable, which resulted in a loss to the Company of £0.9 million, recognised in interest payable.

Other interest payable for the year ended 30 June 2016 represents the release of an over provision from the prior period relating to interest on a tax audit with HMRC.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 7. Employee information and directors' remuneration

Staff costs were as follows:

|                       | Year ended<br>30 June 2016 | 18 month period<br>30 June 2015 |
|-----------------------|----------------------------|---------------------------------|
|                       | GBP                        | GBP                             |
| Wages and salaries    | 324,441,233                | 397,225,063                     |
| Social security costs | 58,393,431                 | 55,558,063                      |
| Other pension costs   | 12,918,125                 | 16,998,785                      |
| Share based payments  | 145,457,020                | 148,064,700                     |
|                       | <u>541,209,809</u>         | <u>617,846,611</u>              |

Staff costs are arrived at after recharging £66 million (period ended 30 June 2015: £65 million) to group companies.

The average monthly number of employees during the period was:

|                               | Year ended<br>30 June 2016 | 18 month period<br>ended<br>30 June 2015 |
|-------------------------------|----------------------------|--|
| Marketing                     | 1,356                      | 1,075                                    |
| Research and development      | 1,223                      | 799                                      |
| Management and administration | <u>364</u>                 | <u>455</u>                               |
|                               | <u>2,943</u>               | <u>2,329</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 the Company cannot be separately identified.

During the year ended 30 June 2016, two directors held share options (period ended 30 June 2015: two) in the ultimate parent undertaking, Alphabet Inc. One of the directors exercised options during the year ended 30 June 2016 (period ended 30 June 2015: none).

During the year there were no retirement benefits accruing to any directors (period ended 30 June 2015: nil) in respect of the Company's defined contribution scheme.

During the year the highest paid director received remuneration of £nil (period ended 30 June 2015: £nil).

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 8. Pension commitments

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. The defined contribution pension charge for the year was £13 million (period ended 30 June 2015: £17 million).

As at 30 June 2016 pension contributions of £2.6 million were outstanding (period ended 30 June 2015: £2 million).

#### 9. Tax on profit on ordinary activities

##### Current tax

|   | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|---|-----------------------------------|---|
| <b>Analysis of tax charge for the year/period</b> |                                   |   |
| UK corporation tax on profit for the year/period  | 36,361,026                        | 53,568,168                                      |
| Tax audit settlement in respect of prior periods  |                                   | 69,230,747                                      |
| Adjustments in respect of prior periods           | 1,363,897                         | (4,911,789)                                     |
| <b>Total current tax</b>                          | <b>37,724,923</b>                 | <b>117,887,126</b>                              |

##### Deferred Tax

|   |                     |                     |
|---|---------------------|---------------------|
| Current year                                | (12,606,109)        | (17,695,854)        |
| Adjustment in respect of previous periods   | (1,328,256)         | (779,843)           |
| Impact of changes in tax rates              | 1,292,731           | 972,610             |
| <b>Total deferred tax (see note 14)</b>     | <b>(12,641,634)</b> | <b>(17,503,087)</b> |
| <b>Tax on profit on ordinary activities</b> | <b>25,083,289</b>   | <b>100,384,039</b>  |

During the year, an aggregated income tax amount of £11 million was credited directly to equity (period ended 30 June 2015: debit of £7.4 million).

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 9. Tax on profit on ordinary activities (continued)

##### Factors affecting tax charge for the year

The tax assessed for the year is less than (period ended 30 June 2015: higher than) the standard rate of corporation tax in the UK of 20% (30 June 2015: 21.16%). The differences are explained below:

|   | Year ended<br>30 June 2016<br>GBP | 18 month period<br>ended<br>30 June 2015<br>GBP |
|---|-----------------------------------|---|
| Profit for the period – continuing operations   | 148,777,577                       | 110,795,883                                     |
| Tax on profit at standard UK tax rate of 20% (30 June 2015: 21.16%)                   | 29,755,515                        | 23,444,409                                      |
| Effects of:   |                                   |   |
| Expenses not deductible for tax purposes  | 2,662,586                         | 7,041,666                                       |
| Impact of tax audit settlement on current tax charge                                  | -                                 | 13,814,123                                      |
| Provision for tax audit settlement for prior periods                                  | -                                 | 69,230,747                                      |
| Differences including foreign exchange arising in respect of share based compensation | (8,663,184)                       | (8,427,884)                                     |
| Tax rate changes  | 1,292,731                         | 972,610   |
| Income tax charge/(credit) prior year   | 1,363,897                         | (4,911,789)                                     |
| Deferred tax charge/(credit) prior year   | (1,328,256)                       | (779,843)                                       |
| Current tax charge for the year/period  | 25,083,289                        | 100,384,039                                     |

##### Factors affecting future tax charges

A change to the UK corporation tax rate was announced in the Budget on 16 March 2016 to reduce the rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantively enacted at the balance sheet date the effect of this change has not been included in the financial statements.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 10. Tangible assets

|  | Long<br>leasehold land   | Building         | Leasehold<br>improvements | Information<br>technology<br>assets | Furniture<br>and fixtures | Construction<br>in progress | Total              |
|--|--------------------------|------------------|---------------------------|-------------------------------------|---------------------------|-----------------------------|--------------------|
|  | GBP                      | GBP              | GBP                       | GBP                                 | GBP                       | GBP                         | GBP                |
| <b>Costs</b>                           |                          |                  |                           |                                     |                           |                             |                    |
| As at 1 July 2015                      | 290,059,499 <sup>Ⓐ</sup> | 4,046,405        | 65,240,029                | 55,854,124                          | 10,270,789                | 62,240,683                  | 487,711,529        |
| Additions                              | -                        | -                | 49,013,558                | 12,851,796                          | 930,199                   | 53,118,934                  | 115,914,487        |
| Disposals                              | -                        | -                | (10,000)                  | (9,110,593)                         | -                         | (190,358)                   | (9,310,951)        |
| Transfers                              | -                        | -                | 7,675,600                 | -                                   | 58,989                    | (7,734,589)                 | -                  |
| <b>As at 30 June 2016</b>              | <b>290,059,499</b>       | <b>4,046,405</b> | <b>121,919,187</b>        | <b>59,595,327</b>                   | <b>11,259,977</b>         | <b>107,434,670</b>          | <b>594,315,066</b> |
| <b>Depreciation and<br/>impairment</b> |                          |                  |                           |                                     |                           |                             |                    |
| As at 1 July 2015                      | -                        | 202,320          | 46,638,156                | 23,314,377                          | 7,354,692                 | 4,003,165 <sup>Ⓐ</sup>      | 81,512,710         |
| Charge for the year                    | -                        | 222,621          | 11,995,745                | 14,100,622                          | 1,719,683                 | -                           | 28,038,671         |
| Disposals                              | -                        | -                | (5,455)                   | (6,339,317)                         | -                         | -                           | (6,344,772)        |
| <b>As at 30 June 2016</b>              | <b>-</b>                 | <b>424,941</b>   | <b>58,628,446</b>         | <b>31,075,682</b>                   | <b>9,074,375</b>          | <b>4,003,165</b>            | <b>103,206,609</b> |
| <b>Net book value</b>                  |                          |                  |                           |                                     |                           |                             |                    |
| At 30 June 2016                        | 290,059,499              | 3,621,464        | 63,290,741                | 28,519,645                          | 2,185,602                 | 103,431,505                 | 491,108,457        |
| At 30 June 2015                        | 290,059,499              | 3,844,085        | 18,601,873                | 32,539,747                          | 2,916,097                 | 58,237,518                  | 406,198,819        |

<sup>Ⓐ</sup> The land is held under a 999 year lease which has been treated as passing substantially all of the risk and rewards of ownership to the Company

<sup>Ⓑ</sup> Impairment charge of £4 million is in respect of costs associated with design alterations that are no longer attributable to the final design of the new office space at Kings Cross



## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 11. Debtors

|                                 | At 30 June 2016<br>GBP | At 30 June 2015<br>GBP |
|---------------------------------|------------------------|------------------------|
| Amounts owed by group companies | 206,673,666            | 101,965,943            |
| Prepayments                     | 40,248,553             | 43,930,464             |
| Deferred tax (Note 14)          | 54,131,022             | 37,064,383             |
| VAT Receivable                  | 13,542,379             | 9,177,484              |
| Corporation tax receivable      | 31,405,901             | -                      |
| Other debtors                   | 1,566,331              | 4,077,843              |
|                                 | <u>347,567,852</u>     | <u>196,216,117</u>     |

Amounts falling due after more than one year included above are:

|                                 | At 30 June<br>2016<br>GBP | At 30 June<br>2015<br>GBP |
|---------------------------------|---------------------------|---------------------------|
| Amounts owed by group companies | 110,977,451               | 15,032,533                |
| Deferred tax (Note 14)          | 54,131,022                | 37,064,383                |
| Prepayments                     | 23,804,428                | 20,279,158                |
| Other debtors                   | 448,883                   | 417,335                   |
|                                 | <u>189,361,784</u>        | <u>72,793,409</u>         |

During 2013, the Company provided a loan facility to another UK group company in the amount of £20 million. The loan is unsecured, interest free and repayable on demand. As at 30 June 2016, the amount owed by the related party in respect of the loan facility was £16 million and is repayable by 30 June 2017. A second loan facility was provided to another UK group company during the year ended 30 June 2016 in the amount of £150 million. The loan is unsecured and interest is payable at 1 year LIBOR + 1% spread. As at 30 June 2016, the amount owed by the related party in respect of the loan facility was £111 million and is repayable by 15 November 2017. Both amounts are included in amounts owed by group companies above.

Included within prepayments of £40 million is prepaid facilities of £33 million and prepaid stamp duty of £4 million.

Within the deferred tax asset balance of £54 million is an amount of £45 million relating to the deferred tax asset on share based compensation expense. 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 30 June 2016

#### 12. Creditors: amounts falling due within one year

|                                 | At 30 June 2016<br>GBP | At 30 June 2015<br>GBP |
|---------------------------------|------------------------|------------------------|
| Amounts owed to group companies | 224,358,681            | 80,619,986             |
| Trade creditors                 | 39,294,661             | 24,479,350             |
| Accruals and deferred income    | 115,474,608            | 88,804,397             |
| Corporation tax payable         | -                      | 118,994,415            |
| Other taxes and social security | 34,699,718             | 26,222,562             |
|                                 | <u>413,827,668</u>     | <u>339,120,710</u>     |

With the exception of loans, amounts due to group companies are unsecured and are repayable on demand.

Included in amounts owed to group companies is a loan obtained from a related party in the amount of £175 million to part finance the investment in the 999 year land lease with KCCLP. The total loan facility obtained was £250 million. The loan is unsecured and is subject to interest. Interest charged on this loan is 1 year LIBOR + 1% margin. At the year end, the repayment date of the loan was by 31 May 2017.

Trade creditors are non-interest bearing and are settled within the Company's normal operating cycle.

#### 13. Creditors: amounts falling due after one year

|                                 | At 30 June 2016<br>GBP | At 30 June 2015<br>GBP |
|---------------------------------|------------------------|------------------------|
| Amounts owed to group companies | 120,161,638            | 175,470,499            |
| Accruals and deferred rent      | 135,325                | 503,155                |
| Lease incentives, non-current   | 25,165,762             | 8,621,081              |
|                                 | <u>145,462,725</u>     | <u>184,594,735</u>     |

Included in amounts owed to group companies is a loan obtained from a related party in the amount of £120 million to finance the prior year settlement with HMRC. The loan is unsecured and is subject to interest. Interest charged on this loan is 2.59%. At the year end, the repayment date of the loan was by 5 February 2018.

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 14. Deferred tax asset

|  | At 30 June 2016   | At 30 June 2015   |
|--|-------------------|-------------------|
|  | GBP               | GBP               |
| At 1 July / January  | 37,064,383        | 19,593,216        |
| Credited to the statement of comprehensive income (note 9) | 11,313,378        | 16,723,244        |
| Adjustment in respect of prior periods                     | 1,328,256         | 779,843           |
| Credited/(debited) to equity – 'Other capital reserves'    | 4,425,005         | (31,920)          |
| At 30 June   | <u>54,131,022</u> | <u>37,064,383</u> |

The deferred tax asset is made up as follows:

|                               | At 30 June 2016   | At 30 June 2015   |
|-------------------------------|-------------------|-------------------|
|                               | GBP               | GBP               |
| Fixed assets                  | 6,662,112         | 8,219,680         |
| Temporary differences trading | 2,904,635         | 394,218           |
| Share options                 | 44,564,275        | 28,450,485        |
|                               | <u>54,131,022</u> | <u>37,064,383</u> |

A deferred tax asset of £45 million (30 June 2015: £28 million) has been recognised in respect of the share units and 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 timing differences is relating to an asset retirement provision of £2.2 million (30 June 2015: £nil) and pensions and bonuses of £0.6 million (30 June 2015: £0.6 million).

#### 15. Provision for liabilities and charges

|                          | Onerous<br>lease<br>provision<br>GBP | Asset<br>retirement<br>obligation<br>GBP | Total<br>GBP      |
|--------------------------|--------------------------------------|--|-------------------|
| At 1 July 2015           | 253,888                              | 8,292,070                                | 8,545,958         |
| Additions                |                                      | 11,524,178                               | 11,524,178        |
| Utilised during the year | <u>(193,577)</u>                     | <u>(10,000)</u>                          | <u>(203,577)</u>  |
| At 30 June 2016          | <u>60,311</u>                        | <u>19,806,248</u>                        | <u>19,866,559</u> |

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 15. Provision for liabilities and charges (continued)

##### 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.

##### Asset retirement obligation

The Company has 3 leases due to expire in 2016, 3 due to expire in 2017, 1 in 2018 and a further 8 leases due to expire between 2020 and 2034. All leases have a contractual obligation to make good any dilapidations. The provision represents management's best estimate of the present obligation.

#### 16. Called up share capital

|   | At 30 June 2016<br>GBP | At 30 June 2015<br>GBP |
|---|------------------------|------------------------|
| <b>Allotted, called up and fully paid</b> |                        |                        |
| 50,001,000 Ordinary shares of £1 each     | <u>50,001,000</u>      | <u>50,001,000</u>      |

There were no movements in the Company's ordinary shares during the year (period ended 30 June 2015: none).

#### 17. Share based payments

The Company's ultimate parent undertaking, Alphabet Inc., maintains the 2004 Stock Plan, the 2012 Stock Plan, and plans assumed through acquisitions, all of which are collectively referred to as the "Stock Plans". These Stock Plans are equity-settled.

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. 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 the Company on the vesting date.

Under these Stock Plans, Alphabet has also issued RSUs. An RSU award is an agreement to issue shares of Alphabet's stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with the Company on the dates of vest.

On October 2, 2015, Google Inc ("Google") implemented a legal reorganisation, which resulted in Alphabet Inc ("Alphabet") owning all of the outstanding stock of Google. Consequently, Google became a direct, wholly owned subsidiary of Alphabet. Each share of each class of Google stock issued and outstanding immediately prior to the legal reorganisation automatically converted into an equivalent corresponding share of Alphabet stock, and Google's stockholders immediately prior to the consummation of the legal reorganisation became stockholders of Alphabet.

As a result of the Alphabet reorganisation, Google transferred to Alphabet, and Alphabet assumed sponsorship of all of Google's stock plans along with all of Google's rights and obligations under each plan.

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 30 June 2016

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

From 1 January 2012, the Company reimburses Google Inc. for share options / RSUs granted to its employees. The reimbursement for the year ended 30 June 2016 was £159 million (period ended 30 June 2015: £166 million). The share-based payment charge and the share-based payment recharge are shown separately under "Other capital reserves".

The following table illustrates the number and weighted average exercise prices of, and movements in, share options for the year ended 30 June 2016 and the period ended 30 June 2015:

#### Ordinary share options

|                                   | At 30 June<br>2016            | At 30 June<br>2016<br>Weighted<br>Average<br>Exercise<br>Price<br>\$ | At 30 June<br>2015            | At 30 June<br>2015<br>Weighted<br>Average<br>Exercise<br>Price<br>\$ |
|-----------------------------------|-------------------------------|--|-------------------------------|--|
|                                   | Number of<br>Share<br>Options |  | Number of<br>share<br>options |  |
| Exercised during the year/period  | (30,136)                      | 187.69   | (51,120)                      | 179.73   |
| Outstanding at end of year/period | <u>55,819</u>                 | <u>187.54</u>  | <u>91,893</u>                 | <u>190.14</u>  |

RSU activities in the UK consisted of the following:

#### Restricted Stock Units

|                                   | At 30 June<br>2016            | At 30 June<br>2016<br>Weighted<br>Average<br>Exercise<br>Price<br>\$ | At 30 June<br>2015            | At 30 June<br>2015<br>Weighted<br>Average<br>Exercise<br>Price<br>\$ |
|-----------------------------------|-------------------------------|--|-------------------------------|--|
|                                   | Number of<br>Share<br>Options |  | Number of<br>share<br>options |  |
| Vested during the year/period     | (385,974)                     | 493.38   | (447,213)                     | 398.36   |
| Outstanding at end of year/period | <u>782,428</u>                | <u>565.68</u>  | <u>702,071</u>                | <u>513.90</u>  |

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

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

The following table summarises information regarding outstanding share options:

#### Ordinary share options

| Range of<br>exercise price | At 30 June 2016                                |                               |   | At 30 June 2015                                |                               |   |
|----------------------------|--|-------------------------------|---|--|-------------------------------|---|
|                            | Weighted<br>average<br>exercise<br>price<br>\$ | Number<br>of share<br>Options | Weighted<br>average<br>remaining<br>life<br>(years) | Weighted<br>average<br>exercise<br>price<br>\$ | Number<br>of share<br>options | Weighted<br>average<br>remaining<br>life<br>(years) |
| \$5.00 □ \$100.00          | 38.99  | 346                           | 2.80  | 47.47  | 1,466                         | 0.51  |
| \$100.01 □ \$200.00        | 155.00   | 35,104                        | 1.64  | 155.18   | 54,589                        | 2.08  |
| \$200.01 □ \$300.00        | 246.09   | 20,353                        | 3.82  | 243.61   | 35,822                        | 4.67  |
| \$300.01 □ \$400.00        | 305.84   | 16                            | 3.48  | 305.84   | 16                            | 4.48  |

**Google UK Limited**

**Notes to the Financial Statements  
For the year ended 30 June 2016**

**17. Share based payments (continued)**

The following table summarises information regarding unvested RSUs:

**Restricted Stock Units**

| Range of<br>exercise price | Weighted<br>average<br>market<br>price<br>\$ | At 30 June 2016    | Weighted<br>average<br>remaining<br>life<br>(years) | Weighted<br>average<br>market<br>price<br>\$ | At 30 June 2015     | Weighted<br>average<br>remaining<br>life<br>(years) |
|----------------------------|--|--------------------|---|--|---------------------|---|
|                            |  | Number<br>of share |   |  | Number<br>of shares |   |
| \$200.01 - \$300.00        | 289.33                                       | 246                | 0.70  | 267.57                                       | 48,382              | 0.39  |
| \$300.01 - \$400.00        | 359.33                                       | 4,624              | 0.41  | 333.63                                       | 19,440              | 0.85  |
| \$400.01 - \$500.00        | 445.66                                       | 54,544             | 0.99  | 447.57                                       | 111,106             | 1.96  |
| \$500.01 - \$600.00        | 537.88                                       | 548,592            | 2.43  | 569.28                                       | 504,091             | 2.97  |
| \$600.01 - \$700.00        | 647.06                                       | 76,136             | 3.13  | 609.13                                       | 19,052              | 2.66  |
| \$700.01 - \$800.00        | 734.83                                       | 98,286             | 3.48  | -  | -                   | -   |

## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

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

The weighted average share price of Alphabet Inc (Google Inc prior to October 2, 2015) for the period was \$699.09 (30 June 2015: \$558.83).

#### 18. Operating lease commitments

The Company has entered into operating leases on land and buildings, with lease terms between three and fifteen years. Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

|  | At 30 June 2016<br>GBP | At 30 June 2015<br>GBP |
|--|------------------------|------------------------|
| Not later than one year                        | 35,411,457             | 25,825,178             |
| Later than one year and not later than 5 years | 175,725,469            | 162,981,829            |
| Later than 5 years                             | 322,120,419            | 354,545,933            |
|  | <u>533,257,345</u>     | <u>543,352,940</u>     |

Total future sublease payments receivable relating to the above operating leases amount to £0.9 million (30 June 2015: £1.7 million).

#### 19. Contingent liabilities

There were no contingent liabilities as at year end 30 June 2016 (30 June 2015: none).

The Company entered into a lease agreement for additional office space in the Kings Cross area in June 2015. The space is due to be delivered in 2018. During the year ended 30 June 2016, the Company entered into a deed of variation to this agreement. Under the terms of the deed, the Company is liable for any potential cost overruns arising as a result of these variations. The Company has not incurred any costs for overruns to the date of signing of these accounts. A provision has not been made for any potential future cost overruns on the grounds that such outflow is considered possible, but not probable, and no reliable measurement can be made.

#### 20. Post balance sheet events

In December 2016, the Company entered into a deed of release with another group company, BeatThatQuote.com Limited, which is in the process of winding down. The amount owed to the Company by BeatThatQuote.com Limited as at December 2016 was £16 million in respect of an intercompany loan that was granted in June 2013 and £8.6 million in respect of intercompany trade debt. BeatThatQuote.com Limited paid £2 million of the amount due to the Company from the remaining funds available to settle its liabilities. The balance of £22.6 million was written off by the Company directly to equity.

In 2013, the Company entered into a 999 year lease with Kings Cross Central Limited Partnership ("KCCLP"). The total cost of the land recorded at 30 June 2016 is £290 million. It is the Company's intention to build a new office space on the land and stage 3 designs for this new office space are complete. A premium of £4 million was paid in January 2017 to extend the development period by 3 months from January 2017 to April 2017.



## Google UK Limited

### Notes to the Financial Statements For the year ended 30 June 2016

#### 21. Parent undertaking and controlling party

In October 2015, Google Inc. announced the implementation of a new public holding company, Alphabet Inc. and a new operating structure. Under this structure Alphabet Inc. became the successor issuer to Google Inc. The Company's ultimate holding company is Alphabet Inc., a company incorporated in the United States of America, while its immediate parent undertaking and controlling party is Google International LLC, a company incorporated in the United States of America.

Alphabet, Inc. is the smallest and largest group into which these financial statements are consolidated. The consolidated financial statements are available to the public and may be obtained from 1600 Amphitheatre Parkway, Mountain View, CA 94043, United States of America or can be obtained from the investor relations website at <https://abc.xyz/investor>.

All transactions recorded in the period are with a related entity and are shown in notes 3, 5, 6, 7, 11, 12, 13 and 17. The Company has taken advantage of the exemption under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

#### 22. Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under previous UK GAAP were for the period ended 30 June 2015. The date of transition to FRS 101 was 1 January 2014. In accordance with FRS 101, the Company has applied the requirements of paragraphs 6 to 33 of IFRS 1 'First-time adoption of International Financial Reporting Standards', except for the requirement of paragraphs 6 and 21 to present an opening balance sheet at the date of transition, as permitted by FRS 101.

Set out below are the changes in accounting policies which reconcile profit for the financial period ended 30 June 2015 and the total equity as at 1 January 2014 and 30 June 2015 between UK GAAP as previously reported and FRS 101.

#### Reconciliation of total equity as at 1 January 2014 and 30 June 2015

|  | 1 Jan 2014<br>GBP  | 30 June 2015<br>GBP |
|--|--------------------|---------------------|
| UK GAAP as previously reported           | 160,231,222        | 156,654,355         |
| Intercompany loans receivable - note (i) | (665,934)          | (882,848)           |
| Tangible assets - note (ii)              | 1,107,494          | 1,107,494           |
| Deferred tax liability - note (ii)       | (221,499)          | (221,499)           |
| Lease incentives - note (iii)            | (4,092,697)        | 893,760             |
| Deferred tax asset - note (iv)           | 3,598,800          | 2,569,587           |
| <b>FRS 101</b>                           | <b>159,957,386</b> | <b>160,120,849</b>  |

#### Reconciliation of total comprehensive income for the period ended 30 June 2015

|  | 30 June 2015<br>GBP |
|--|---------------------|
| UK GAAP as previously reported                               | 106,026,342         |
| Interest income - note (i)                                   | 663,486             |
| Interest expense - note (i)                                  | (880,400)           |
| Lease incentives - note (iii)                                | 4,986,455           |
| Total adjustment to profit on ordinary activities before tax | 4,769,541           |
| <b>Profit for the financial year - FRS 101</b>               | <b>110,795,883</b>  |

## **Google UK Limited**

### **Notes to the Financial Statements For the year ended 30 June 2016**

#### **22. Transition to FRS 101 (continued)**

There was no adjustment to other comprehensive income for the period ended 30 June 2015 on transition to FRS 101.

##### **(i) Financial assets – Intercompany loans receivable**

Under UK GAAP, intercompany loans with group undertakings were measured at cost. Under FRS 101, such loans are measured initially at fair value and subsequently measured at amortised cost. The effect of this was to reduce intercompany loans receivable by £0.7 million at 1 January 2014 and £0.9 million at 30 June 2015. Interest income in the statement of comprehensive income increased by £0.7 million and interest expense in the statement of comprehensive income increased by £0.9 million for the financial period ended 30 June 2015.

##### **(ii) Tangible assets**

Under UK GAAP, the Company's accounting policy choice was to expense borrowing costs directly attributable to the acquisition and construction of qualifying assets. Under FRS 101, such borrowing costs are capitalised into the cost of the asset. The effect of this was to increase tangible assets by £1.1 million at 1 January 2014 and 30 June 2015 and decrease the deferred tax asset by £0.2 million at 1 January 2014 and 30 June 2015.

##### **(iii) Lease incentives**

Under UK GAAP, deferred or accrued income relating to lease premiums and similar incentives were released to the statement of comprehensive income on a straight line basis over the lease term or, where applicable, over the period to the next rent review.

Under FRS 101, such lease premiums are released to the statement of comprehensive income on a straight line basis over the lease term. The effect of this was to increase lease incentives by £4.1 million at 1 January 2014 and to decrease lease incentives by £0.8 million at 30 June 2015. The deferred tax asset was increased by £0.8 million at 1 January 2014 and reduced by £0.2 million at 30 June 2015 as a result. Administration expenses in the statement of comprehensive income reduced by £4.9 million for the financial period ended 30 June 2015.

##### **(iv) Deferred tax asset**

Under UK GAAP, a permanent deferred tax difference existed in circumstances where the future tax benefit associated with share-based compensation exceeded the accounting charge. Under FRS 101, where the future tax deduction associated with share-based compensation exceeds the accounting charge, the excess is credited directly to equity. The effect of this was to increase deferred tax assets by £2.8 million at 1 January 2014 and £2.8 million at 30 June 2015 and increase other capital reserves by £2.8 million at 1 January 2014 and £2.8 million at 30 June 2015. The remaining amount of £0.8 million at 1 January 2014 and (£0.2) million at 30 June 2015 relates to the adjustment to deferred tax as a result of the IFRS lease adjustments explained at (iii).

##### **(v) Other transition adjustments**

Under UK GAAP, the tax benefit associated with share-based compensation was credited directly to the statement of comprehensive income. Under FRS 101, where the tax benefit associated with share-based compensation exceeds the related accounting charge, the excess is credited directly to equity. The effect of this was to reduce retained earnings by £13 million at 1 January 2014 and increase tax on profit on ordinary activities by £7.4 million at 30 June 2015 and increase other capital reserves by £13 million at 1 January 2014 and £7.4 million at 30 June 2015.