

Registered number: 03977902

GOOGLE UK LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2017



Google UK Limited

CONTENTS

| | PAGE(S) |
|--|----------------|
| STRATEGIC REPORT | 3 - 4 |
| DIRECTORS' REPORT | 5 - 7 |
| INDEPENDENT AUDITOR'S REPORT | 8 - 10 |
| STATEMENT OF COMPREHENSIVE INCOME | 11 |
| STATEMENT OF FINANCIAL POSITION | 12 |
| STATEMENT OF CHANGES IN EQUITY | 13 |
| NOTES TO THE FINANCIAL STATEMENTS | 14 - 33 |

Google UK Limited

Directors' Report For the year ended 30 June 2017

The directors present their report of the Company for the year ended 30 June 2017.

Directors

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

Ken Yi
Paul T. Manicle
Ronan Harris (appointed 29.10.2016; resigned 06.02.2017)

Company secretary

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

Research and development

The Company continued to provide research and development services to other US group undertakings. The turnover associated with research and development activity during the year was £377 million (year ended 30 June 2016: £247 million). 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 LLC 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.

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 is updated regularly with Company and industry news.

Google UK Limited

Directors' Report For the year ended 30 June 2017

Employees (*continued*)

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 £153 million (year ended 30 June 2016: £124 million). The directors do not propose the payment of a dividend for the year (year ended 30 June 2016: £nil).

Events since year end date

There were no significant events since the year end date or to the date of approval of the financial statements that require adjustments to or disclosure in the financial statements.

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 year and to the date of approval of the financial statements.

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).

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.

Google UK Limited

Directors' Report For the year ended 30 June 2017


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: 22 March 2018



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOOGLE UK LIMITED

Opinion

We have audited the financial statements of Google UK Limited for the year ended 30 June 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2017 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOOGLE UK LIMITED (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOOGLE UK LIMITED (continued)

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

26 March 2018

Google UK Limited

Statement of Comprehensive Income For the year ended 30 June 2017

| | Notes | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|--|-------|------------------------------------|------------------------------------|
| Turnover | 4 | 1,265,380,351 | 1,037,260,024 |
| Administrative expenses | | <u>(1,063,020,905)</u> | <u>(888,999,594)</u> |
| Operating profit | 5 | 202,359,446 | 148,260,430 |
| Interest receivable and similar income | 6 | 2,340,167 | 1,838,929 |
| Interest payable and similar charges | 7 | <u>(4,149,208)</u> | <u>(1,321,782)</u> |
| Profit on ordinary activities before taxation | | 200,550,405 | 148,777,577 |
| Tax on profit on ordinary activities | 10 | <u>(47,367,684)</u> | <u>(25,083,289)</u> |
| Profit for the financial year | | <u>153,182,721</u> | <u>123,694,288</u> |

All amounts relate to continuing operations.

Other comprehensive income

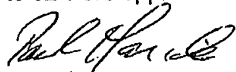
There were no items of other comprehensive income for the current year or prior year and therefore no separate statement of other comprehensive income has been prepared.

Google UK Limited

Statement of Financial Position As at 30 June 2017

| | | 30 June 2017 | 30 June 2016 |
|--|-----------|--------------------|--------------------|
| | Note s | £ | £ |
| Fixed assets | | | |
| Tangible assets | 11 | 561,683,232 | 491,108,457 |
| Current assets | | | |
| Debtors | | | |
| Amounts falling due within one year | 12 | 101,312,767 | 158,206,068 |
| Amounts falling due after one year | 12 | 383,138,477 | 189,361,784 |
| | | 484,451,244 | 347,567,852 |
| Cash and cash equivalents | | 3,931,225 | 22,343,369 |
| | | 488,382,469 | 369,911,221 |
| Creditors: amounts falling due within one year | 13 | (369,892,841) | (413,827,668) |
| Net current assets / (liabilities) | | 118,489,628 | (43,916,447) |
| Total assets less current liabilities | | 680,172,860 | 447,192,010 |
| Creditors: amounts falling due after one year | 13 | (260,410,924) | (145,462,725) |
| Provision for liabilities and charges | 15 | (29,594,734) | (19,866,559) |
| Net assets | | 390,167,202 | 281,862,726 |
| Capital and reserves | | | |
| Called up share capital | 16 | 50,001,000 | 50,001,000 |
| Other capital reserves | | 120,273,890 | 142,607,491 |
| Retained earnings | | 219,892,312 | 89,254,235 |
| Total shareholders' funds | | 390,167,202 | 281,862,726 |

The financial statements on pages 10 to 12 and supporting notes to the financial statements on pages 13 to 32 were approved by the board of directors and were signed on its behalf by:



Paul T. Manicle
Director

Date: 22 March 2018

Google UK Limited

Statement of Changes in Equity

As at 30 June 2017

| | Called up share capital | Other capital reserves | Retained earnings | Total |
|--|-------------------------------|---------------------------|----------------------|--------------------|
| | £ | £ | £ | £ |
| 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 of tax effect | - | 157,249,697 | - | 157,249,697 |
| Share based compensation recharge | - | (159,202,108) | - | (159,202,108) |
| Balance at 30 June 2016 | 50,001,000 | 142,607,491 | 89,254,235 | 281,862,726 |
| Balance at 1 July 2016 | 50,001,000 | 142,607,491 | 89,254,235 | 281,862,726 |
| Profit for the year | - | - | 153,182,721 | 153,182,721 |
| Write off of intercompany loan receivable | - | - | (22,544,644) | (22,544,644) |
| Share based compensation expense, net of tax effect | - | 230,885,251 | - | 230,885,251 |
| Share based compensation recharge | - | (253,218,852) | - | (253,218,852) |
| Balance at 30 June 2017 | 50,001,000 | 120,273,890 | 219,892,312 | 390,167,202 |

The notes on pages 14 to 33 form an integral part of the financial statements.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

1. General information

Google UK Limited (or the 'Company'), a private company limited by shares, 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.

Critical accounting judgments and key sources of estimation uncertainty used that are significant to the financial statements are disclosed in note 3 to the financial statements.

Accounting policies

The significant accounting policies, which have been applied consistently in the current and previous financial year in the preparation of the Company's financial statements are set out below.

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);
 - 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 2017

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 2017, 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 pound sterling ("£"), which is also the Company's functional currency and presentation currency. All values are in pound sterling ("£") 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 2017

2. Principal accounting policies and basis of preparation (*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 – as lessee

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 present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

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.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

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

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, demand deposits and short-term, highly liquid investments with maturity of three months or less, which are subject to an insignificant risk of changes in value.

Financial assets

Recognition

Financial assets are recognized on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

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.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

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

(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.

Tangible assets

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 14.3% or lease term (2016: Lesser of 20% or lease term) |
| Information technology assets: | |
| - Production and network equipment | - 33% straight line |
| - Computer equipment and software | - 50% straight line |
| Furniture and fixtures | - 14.3% straight line (2016: 20% straight line) |
| Construction in progress | - No depreciation as assets are not in use |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

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

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.

At 1 January 2017, as a result of a study undertaken by the Company to assess the useful life of leasehold improvements, the Company reassessed the useful life to be the shorter of 7 years or the lease term (previously 5 years), from the date of acquisition.

The impact on the depreciation expense for the year ended 30 June 2017 and future years is as follows:

| | |
|--------------|--------------|
| Current year | (4,483,725) |
| Years 2 - 5 | (18,843,491) |
| Years 6 - 7 | 23,327,216 |

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.

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 date 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 LLC 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 LLC to the

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

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

extent that the Company has sufficient balances within "Other capital reserves" to cover such reimbursements.

Reimbursements will represent distributions to Google LLC 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.

3. Critical accounting estimates and judgements

Critical judgments in applying the Company's accounting policies

In the process of applying the Company's accounting policies, management is of the opinion that there are no critical judgments involved that have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and the reported amounts of revenue and expenses within the next financial year are discussed below:

Property, plant and equipment

The annual depreciation on property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reviewed annually. See note 11 for the carrying amount of the property, plant and equipment. The useful economic lives for each class of asset are outlined within note 2.

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

4. Turnover

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

Geographical market

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|---|---------------------------------|---------------------------------|
| Research and development service fee (US) | 377,022,445 | 246,658,304 |
| Marketing and services fee (Ireland) | 869,206,505 | 783,865,891 |
| Services fee (UK) | 19,151,401 | 6,735,829 |
| | <u>1,265,380,351</u> | <u>1,037,260,024</u> |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

5. Operating profit

Operating profit is arrived at after charging the following:

| | Notes | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|--|-------|---------------------------------|---------------------------------|
| Advertising and promotional expense | | 173,573,050 | 161,177,066 |
| Professional services | | 58,417,595 | 34,927,888 |
| Legal settlements | | 42,583 | 22,557 |
| Auditor's remuneration | | 95,900 | 109,705 |
| Depreciation and impairment of tangible fixed assets | | 40,359,685 | 28,433,239 |
| Employee benefit expense | 8 | 656,802,011 | 541,209,809 |
| Operating lease charges | | 40,494,104 | 35,397,342 |
| Other administrative expenses | | 93,235,977 | 87,721,988 |

Fees paid to auditors in relation to non-audit services are £nil (for the year ended 30 June 2016: £nil).

6. Interest receivable and similar income

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|------------------------------|---------------------------------|---------------------------------|
| Interest on intergroup loans | 2,340,167 | 1,513,019 |
| Interest income | - | 325,910 |
| | <u>2,340,167</u> | <u>1,838,929</u> |

7. Interest payable and similar charges

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|------------------------------|---------------------------------|---------------------------------|
| Interest on intergroup loans | 3,865,501 | 2,073,395 |
| Other interest payable | 283,707 | (751,613) |
| | <u>4,149,208</u> | <u>1,321,782</u> |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

7. Interest payable and similar charges *(continued)*

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

8. Employee information and directors' remuneration

Staff costs were as follows:

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|------------------------------|---------------------------------|---------------------------------|
| Wages and salaries | 356,938,439 | 324,441,233 |
| Social security costs | 65,260,268 | 58,393,431 |
| Other pension costs (Note 9) | 15,006,384 | 12,918,125 |
| Share based payments | 219,596,920 | 145,457,020 |
| | <u>656,802,011</u> | <u>541,209,809</u> |

Staff costs are arrived at after recharging £91 million (year ended 30 June 2016: £66 million) to group companies.

The average monthly number of employees during the year was:

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|-------------------------------|---------------------------------|---------------------------------|
| Marketing | 1,414 | 1,356 |
| Research and development | 1,482 | 1,223 |
| Management and administration | 384 | 364 |
| | <u>3,280</u> | <u>2,943</u> |

Directors' remuneration:

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|---|---------------------------------|---------------------------------|
| Emoluments | 187,557 | - |
| Company payments to defined contribution pension scheme | 1,650 | - |
| | <u>189,207</u> | <u>-</u> |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

8. Employee information and directors' remuneration (*continued*)

The emoluments shown are those earned by directors in performing qualifying services for the Company. Other 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 and are not included within directors' emoluments.

During the year, one director held share options (year ended 30 June 2016: two) in the ultimate parent undertaking, Alphabet Inc. None of the directors exercised options during the year (year ended 30 June 2016: one).

One director (year ended 30 June 2016: none) received shares under a long-term incentive scheme.

One director (year ended 30 June 2016: none) was accruing benefits under the Company's defined contribution scheme.

9. Pension commitments

The Company operates a defined contribution scheme for certain employees and directors. 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 £15 million (year ended 30 June 2016: £13 million).

As at 30 June 2017 pension contributions of £3 million were outstanding (30 June 2016: £2.6 million).

10. Tax on profit on ordinary activities

Current tax

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|--|---------------------------------|---------------------------------|
| Analysis of tax charge for the year | | |
| UK corporation tax on profit for the year | 49,317,462 | 36,361,026 |
| Adjustments in respect of prior years | (634,735) | 1,363,897 |
| Total current tax | 48,682,727 | 37,724,923 |

Deferred tax

| | | |
|---|--------------------|---------------------|
| Current-year | (2,637,851) | (12,606,109) |
| Adjustment in respect of previous years | 114,173 | (1,328,256) |
| Impact of changes in tax rates | 1,208,635 | 1,292,731 |
| Total deferred tax (Note 14) | (1,315,043) | (12,641,634) |
| Tax on profit on ordinary activities | 47,367,684 | 25,083,289 |

During the year, an aggregated income tax amount of £11.3 million was credited directly to equity (year ended 30 June 2016: credit of £11.9 million).

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

10. Tax on profit on ordinary activities (*continued*)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (year ended 30 June 2016: less than) the standard rate of corporation tax in the UK of 19.75% (30 June 2016: 20%). The differences are explained below:

| | Year ended 30 June 2017 £ | Year ended 30 June 2016 £ |
|---|---------------------------------|---------------------------------|
| Profit for the year – continuing operations | 200,550,405 | 148,777,577 |
| Tax on profit at standard UK tax rate of 19.75% (30 June 2016: 20%) | 39,610,079 | 29,755,515 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3,686,426 | 2,662,586 |
| Differences including foreign exchange arising in respect of share based compensation | 3,383,106 | (8,663,184) |
| Tax rate changes | 1,208,635 | 1,292,731 |
| Adjustments in respect of prior years | (520,562) | 35,641 |
| Current tax charge for the year | 47,367,684 | 25,083,289 |

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 and was substantially enacted on 6 September 2016. As the change to 17% had been substantively enacted at the balance sheet date the effect of this change has been included in the financial statements.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

11. Tangible assets

| | Long leasehold land | Building | Leasehold improvements | Information technology assets | Furniture and fixtures | Construction in progress | Total |
|--|--------------------------|------------------|---------------------------|-------------------------------------|---------------------------|-----------------------------|--------------------|
| | £ | £ | £ | £ | £ | £ | £ |
| Costs | | | | | | | |
| As at 1 July 2016 | 290,059,499 ^① | 4,046,405 | 121,919,187 | 59,595,327 | 11,259,977 | 107,434,670 | 594,315,065 |
| Additions | - | - | 30,850,306 | 23,979,052 | 3,815,716 | (19,823,295) | 38,821,779 |
| Disposals | - | - | (5,130) | (11,399,113) | (14,154) | - | (11,418,397) |
| Transfers | - | - | 37,889,300 | - | 1,056,183 | 37,934,550 | 76,880,033 |
| As at 30 June 2017 | 290,059,499 | 4,046,405 | 190,653,663 | 72,175,266 | 16,117,722 | 125,545,925 | 698,598,480 |
| Depreciation and impairment | | | | | | | |
| As at 1 July 2016 | - | 424,941 | 58,628,446 | 31,075,682 | 9,074,375 | 4,003,165 ^② | 103,206,609 |
| Charge for the year | - | 101,092 | 21,815,437 | 15,385,417 | 3,031,444 | - | 40,333,390 |
| Disposals | - | - | (5,130) | (6,619,621) | - | - | (6,624,751) |
| As at 30 June 2017 | - | 526,033 | 80,438,753 | 39,841,478 | 12,105,819 | 4,003,165 | 136,915,248 |
| Net book value | | | | | | | |
| At 30 June 2017 | 290,059,499 | 3,520,372 | 110,214,910 | 32,333,788 | 4,011,903 | 121,542,760 | 561,683,232 |
| 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 |

① 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

② 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 2017

12. Debtors

Amounts falling due within one year:

| | At 30 June 2017 | At 30 June 2016 |
|---------------------------------|--------------------|--------------------|
| | £ | £ |
| Amounts owed by group companies | 19,848,113 | 95,696,215 |
| Prepayments | 28,834,611 | 16,444,125 |
| VAT Receivable | 7,238,507 | 13,542,379 |
| Corporation tax receivable | 44,165,775 | 31,405,901 |
| Other debtors | 1,225,761 | 1,117,448 |
| | <u>101,312,767</u> | <u>158,206,068</u> |

Amounts falling due after more than one year:

| | At 30 June 2017 | At 30 June 2016 |
|---------------------------------|--------------------|--------------------|
| | £ | £ |
| Amounts owed by group companies | 303,417,617 | 110,977,451 |
| Prepayments | 21,701,393 | 23,804,428 |
| Deferred tax (Note 14) | 57,787,028 | 54,131,022 |
| Other debtors | 232,439 | 448,883 |
| | <u>383,138,477</u> | <u>189,361,784</u> |

During 2013, the Company provided a loan facility to another UK group company in the amount of £20 million. The loan was unsecured, interest free and repayable on demand. In December 2016, the Company entered into a deed of release with this UK group company, which is in the process of winding down. The amount owed to the Company as at December 2016 was £16 million in respect of the intercompany loan granted in June 2013 and £8.6 million in respect of intercompany trade debt. The UK group company 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.

A second loan facility was provided to another UK group company during the year to 30 June 2016. During the year to 30 June 2017, an amount of £190 million was drawn down under this facility. The loan is unsecured and interest is payable at an interest rate equal to 0.86%. As at 30 June 2017, the amount owed by the related party in respect of the loan facility was £303.4 million and is repayable by 15 November 2018. This balance is included in amounts owed by group companies above.

Included within the total prepayments balance of £51 million is prepaid facilities of £31.6 million and prepaid property tax of £15.3 million.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

12. Debtors (continued)

Within the deferred tax asset balance of £58 million is an amount of £47 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.

13. Creditors

Amounts falling due within one year:

| | At 30 June 2017 £ | At 30 June 2016 £ |
|---------------------------------|----------------------|----------------------|
| Amounts owed to group companies | 184,785,611 | 224,358,681 |
| Trade creditors | 31,792,753 | 39,294,661 |
| Accruals and deferred income | 108,901,446 | 115,474,608 |
| Other taxes and social security | 44,413,031 | 34,699,718 |
| | <u>369,892,841</u> | <u>413,827,668</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 £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.

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

Amounts falling due after one year:

| | At 30 June 2017 £ | At 30 June 2016 £ |
|---------------------------------|----------------------|----------------------|
| Amounts owed to group companies | 225,899,631 | 120,161,638 |
| Accruals and deferred rent | - | 135,325 |
| Lease incentives, non-current | 34,511,293 | 25,165,762 |
| | <u>260,410,924</u> | <u>145,462,725</u> |

Included in amounts owed to group companies is a second loan obtained from a related party in the amount of £225 million to part finance the investment in the 999 year land lease with KCCLP. The total loan facility obtained was increased during the year by £120 million to £370 million. The loan is unsecured and is subject to interest. Interest charged on this loan is 0.77% per annum. At the year end, the repayment date of the loan was by 31 May 2019.

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

14. Deferred tax asset

| | At 30 June 2017 | At 30 June 2016 |
|---|-------------------|-------------------|
| | £ | £ |
| At 1 July | 54,131,022 | 37,064,383 |
| Credited to the statement of comprehensive income (note 10) | 1,429,217 | 11,313,378 |
| Adjustment in respect of prior years | (114,173) | 1,328,256 |
| Credited to equity – 'Other capital reserves' | 2,340,962 | 4,425,005 |
| At 30 June | <u>57,787,028</u> | <u>54,131,022</u> |

The deferred tax asset is made up as follows:

| | At 30 June 2017 | At 30 June 2016 |
|-------------------------------|-------------------|-------------------|
| | £ | £ |
| Fixed assets | 8,766,991 | 6,662,112 |
| Temporary differences trading | 2,282,621 | 2,904,635 |
| Share options | 46,737,416 | 44,564,275 |
| | <u>57,787,028</u> | <u>54,131,022</u> |

A deferred tax asset of £47 million (30 June 2016: £45 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 £1.7 million (30 June 2016: £2.2 million) and pensions and bonuses of £0.6 million (30 June 2016: £0.6 million).

15. Provision for liabilities and charges

| | Onerous lease provision £ | Asset retirement obligation £ | Total £ |
|--------------------------|------------------------------------|--|-------------------|
| At 1 July 2016 | 60,311 | 19,806,248 | 19,866,559 |
| Additions | - | 9,788,486 | 9,788,486 |
| Utilised during the year | <u>(60,311)</u> | <u>-</u> | <u>(60,311)</u> |
| At 30 June 2017 | <u>-</u> | <u>29,594,734</u> | <u>29,594,734</u> |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

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

Onerous lease provision

In 2008, the Company vacated a leased property and as a result, the Company was liable for charges under the lease which expired in 2017. The provision has now been fully discounted.

Asset retirement obligation

The Company has 3 leases due to expire in 2016, 2 in 2017, 2 in 2018 and a further 7 leases due to expire between 2020 and 2030. 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 2017 £ | At 30 June 2016 £ |
|---|----------------------|----------------------|
| Allotted, called up and fully paid | | |
| 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 (year ended 30 June 2016: 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.

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.

From 1 January 2012, the Company reimburses Google LLC for share options / RSUs granted to its employees. The reimbursement for the year ended 30 June 2017 was £212 million (year ended 30 June 2016: £159 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 2017 and the year ended 30 June 2016:

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

17. Share based payments (*continued*)

Ordinary share options

| | At 30 June 2017 | At 30 June 2017 | At 30 June 2016 | At 30 June 2016 |
|--|-------------------------|------------------------------------|-------------------------|------------------------------------|
| | Number of Share Options | Weighted Average Exercise Price \$ | Number of share options | Weighted Average Exercise Price \$ |
| Exercised during the year | (17,946) | 177.70 | (30,136) | 187.69 |
| Outstanding / exercisable at end of year | <u>37,119</u> | <u>193.67</u> | <u>55,819</u> | 187.54 |

RSU activities in the UK consisted of the following:

Restricted Stock Units

| | At 30 June 2017 | At 30 June 2017 | At 30 June 2016 | At 30 June 2016 |
|----------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| | Number of Share Options | Weighted Average Exercise Price \$ | Number of share options | Weighted Average Exercise Price \$ |
| Vested during the year | (442,470) | 590.59 | (385,974) | 493.38 |
| Outstanding at end of year | <u>880,786</u> | <u>679.22</u> | <u>782,428</u> | 565.68 |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

17. Share based payments (*continued*)

The following table summarises information regarding outstanding / exercisable share options:

Ordinary share options

| Range of exercise price | At 30 June 2017 | | | At 30 June 2016 | | |
|----------------------------|--|-------------------------------|---|--|-------------------------------|---|
| | 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) |
| \$5.00 - \$100.00 | 41.48 | 314 | 1.91 | 38.99 | 346 | 2.80 |
| \$100.01 - \$200.00 | 154.54 | 20,285 | 0.93 | 155.00 | 35,104 | 1.64 |
| \$200.01 - \$300.00 | 246.56 | 16,504 | 2.83 | 246.09 | 20,353 | 3.82 |
| \$300.01 - \$400.00 | 305.84 | 16 | 2.48 | 305.84 | 16 | 3.48 |

17. Share based payments (*continued*)

The following table summarises information regarding unvested RSUs:

Restricted Stock Units

| Range of exercise price | Weighted average market price \$ | At 30 June 2017 | | Weighted average remaining life (years) | Weighted average market price \$ | At 30 June 2016 | |
|----------------------------|--|---------------------|---------------------|---|--|---------------------|---|
| | | Number of shares | Number of shares | | | Number of shares | Weighted average remaining life (years) |
| \$200.01 - \$300.00 | 290.51 | 22 | | 1.24 | 289.33 | 246 | 0.70 |
| \$300.01 - \$400.00 | - | - | | - | 359.33 | 4,624 | 0.41 |
| \$400.01 - \$500.00 | 440.53 | 1,474 | | 0.27 | 445.66 | 54,544 | 0.99 |
| \$500.01 - \$600.00 | 536.27 | 290,893 | | 1.59 | 537.88 | 548,592 | 2.43 |
| \$600.01 - \$700.00 | 690.88 | 264,045 | | 2.63 | 647.06 | 76,136 | 3.13 |
| \$700.01 - \$800.00 | 771.90 | 256,260 | | 3.07 | 734.83 | 98,286 | 3.48 |
| \$800.01 - \$900.00 | 833.84 | 33,299 | | 3.73 | - | - | - |
| \$900.01 - \$1000.00 | 965.59 | 34,793 | | 3.87 | - | - | - |

Google UK Limited

Notes to the Financial Statements For the year ended 30 June 2017

17. Share based payments (*continued*)

The weighted average share price of Alphabet Inc for the year was \$831.10 (30 June 2016: \$699.09).

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 2017 | At 30 June 2016 |
|--|--------------------|--------------------|
| | £ | £ |
| Not later than one year | 49,174,238 | 35,411,457 |
| Later than one year and not later than 5 years | 179,108,191 | 175,725,469 |
| Later than 5 years | 295,060,247 | 322,120,419 |
| | <u>523,342,676</u> | <u>533,257,345</u> |

Total future sublease payments receivable relating to the above operating leases amount to £0.1 million (30 June 2016: £0.9 million).

19. Contingent liabilities

There were no contingent liabilities as at year end 30 June 2017 (30 June 2016: none).

20. Events since year end date

There were no significant events since the year end date or to the date of approval of the financial statements that require adjustments to or disclosure in the financial statements.

21. Parent undertaking and controlling party

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 year are with a related entity and are shown in notes 4, 6, 7, 8, 12, 13 and 17. The Company has taken advantage of the exemption under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

Google UK Limited

Strategic Report For the year ended 30 June 2017

The directors present their strategic report of Google UK Limited (the "Company") for the year ended 30 June 2017.

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 during the year ended 30 June 2017 and the year ended 30 June 2016 were as follows:

Turnover increased from £1,037 million to £1,265 million in the year, an increase of £228 million. Administrative expenses increased from £889 million to £1,063 million, an increase of £174 million in the year. 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 year.

The statement of comprehensive income and the statement of financial position are set out on pages 11 and 12 respectively. The profit for the financial year of £153 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 2017 that had a material impact on the financial statements.

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 2017 is £290 million. A premium of £16 million was paid during the year to extend the development period by 12 months from January 2017 to January 2018. Planning permission for the building was granted in August 2017 and pre-commencement works began in November 2017. The main works under a construction management form of contract commenced before the end of 2017 with the first piles being sunk in December 2017.

The Company's average headcount increased from 2,943 in the year ended 30 June 2016 to 3,280 in the year ended 30 June 2017, an increase of 337.

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 potential 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.*

Google UK Limited

Strategic Report For the year ended 30 June 2017

Principal risks and uncertainties (*continued*)

- *Privacy concerns and breached security measures relating to these businesses technology could damage the Company's reputation and deter current and potential users from using its 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: 30 March 2018