

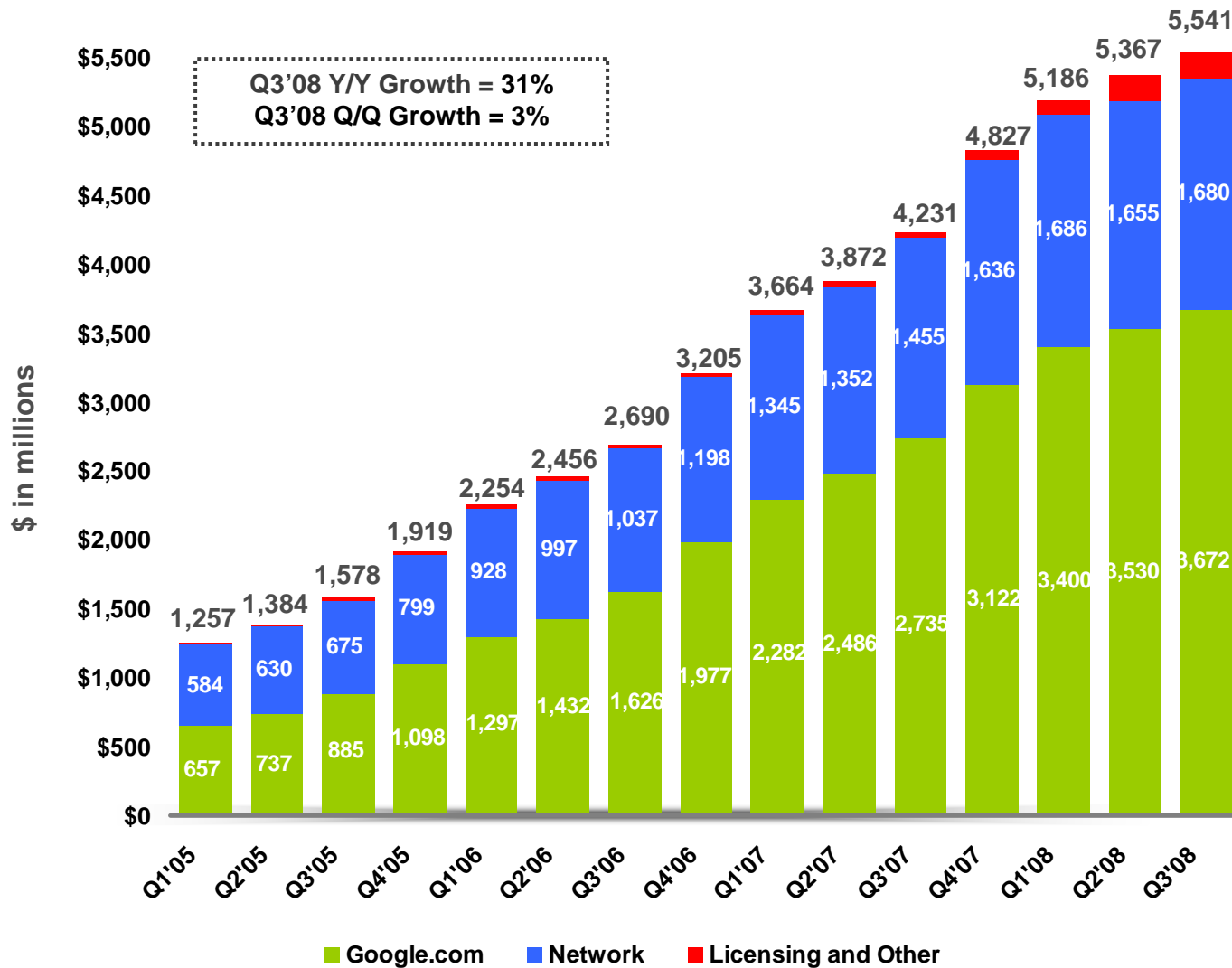
**Q3 2008**  
**Quarterly Earnings**  
**Summary**

# Third Quarter 2008 Highlights

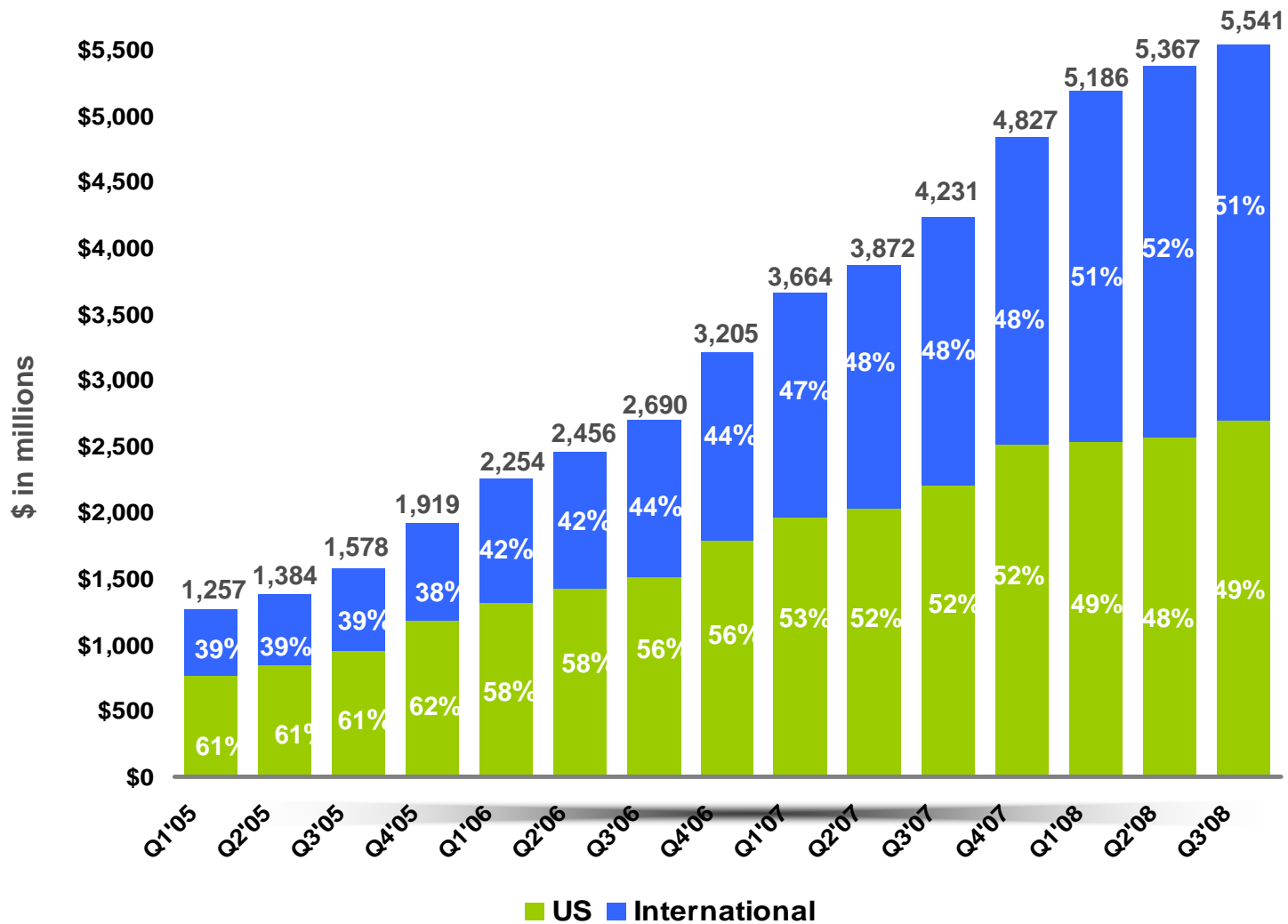
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- Revenue growth of 31% Y/Y and 3% Q/Q
  - Google properties revenue growth of 34% Y/Y and 4% Q/Q
  - Network revenues increased 15% Y/Y and 1% Q/Q
  - International revenue was \$2.8 billion
- Operational Highlights
  - Traffic and revenue solid in Q3 despite difficult economic environment
  - Key investments in our core search and ads businesses
  - Increasing prioritization of our newer investments:
    - Apps, Display, YouTube, and Geo
- Maintaining a clear focus on operational efficiency and cost containment, better positioning Google for healthy long-term growth

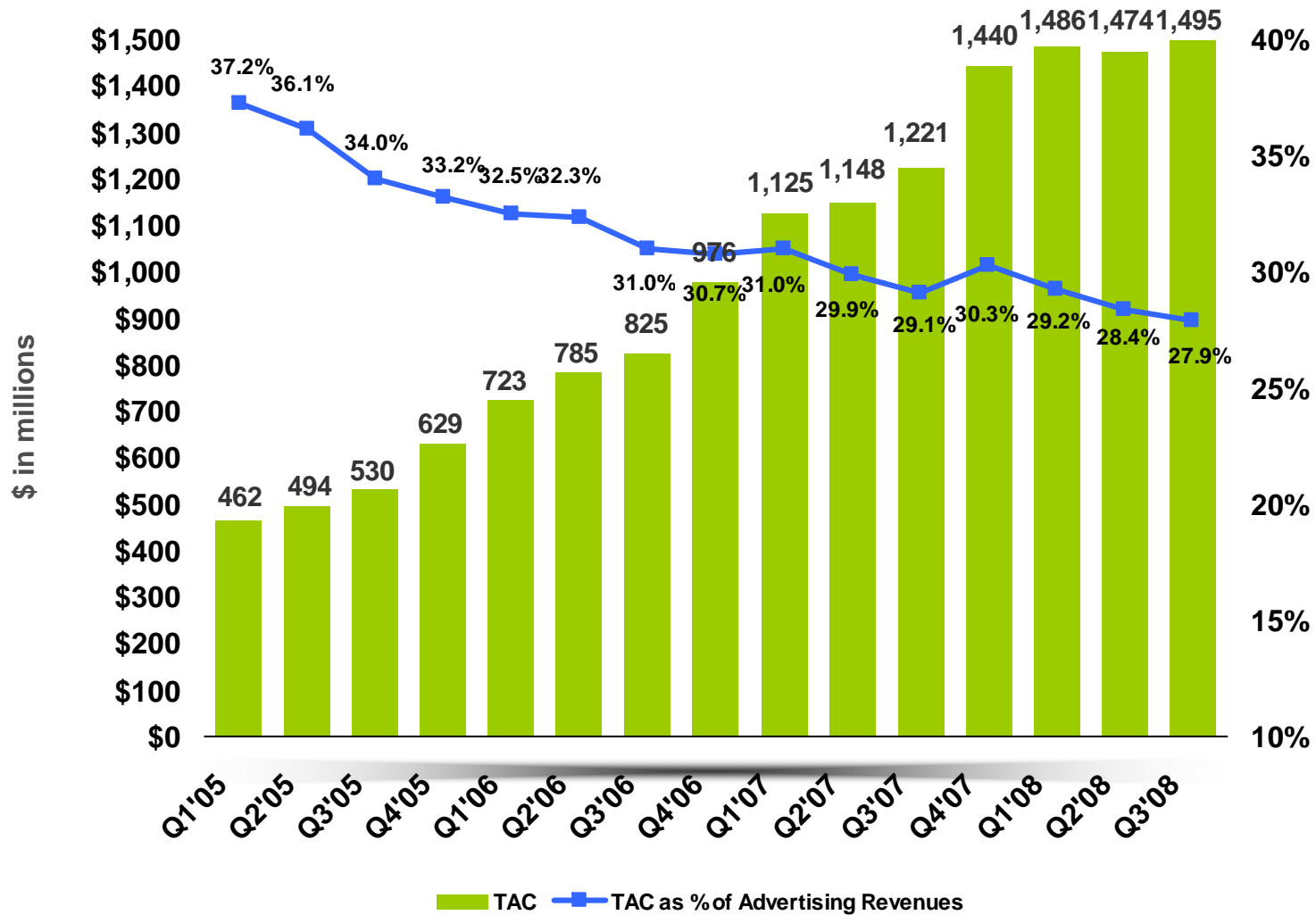
# Quarterly Revenue



# U.S. vs. International Revenue



# Traffic Acquisition Costs



# Costs and Expenses

<b>GAAP</b>			
<b>\$Millions</b>	<b>Q3'07</b>	<b>Q2'08</b>	<b>Q3'08</b>
<b>Cost of Revenues</b>	\$1,663	\$2,148	\$2,173
<i>Percent of revenues</i>	39%	40%	39%
<b>Research &amp; Development</b>	\$549	\$682	\$705
<i>Percent of revenues</i>	13%	13%	13%
<b>Sales &amp; Marketing</b>	\$381	\$485	\$509
<i>Percent of revenues</i>	9%	9%	9%
<b>General &amp; Administrative</b>	\$321	\$474	\$507
<i>Percent of revenues</i>	8%	9%	9%
<b>Total Costs &amp; Expenses</b>	\$2,914	\$3,789	\$3,894
<i>Percent of revenues</i>	69%	71%	70%

<b>Non-GAAP</b>			
<b>\$Millions</b>	<b>Q3'07</b>	<b>Q2'08</b>	<b>Q3'08</b>
<b>Cost of Revenues</b>	\$1,659	\$2,139	\$2,162
<i>Percent of revenues</i>	39%	40%	39%
<b>Research &amp; Development</b>	\$418	\$495	\$536
<i>Percent of revenues</i>	10%	10%	10%
<b>Sales &amp; Marketing</b>	\$351	\$442	\$445
<i>Percent of revenues</i>	8%	8%	8%
<b>General &amp; Administrative</b>	\$288	\$440	\$376
<i>Percent of revenues</i>	7%	8%	7%
<b>Total Costs &amp; Expenses</b>	\$2,716	\$3,516	\$3,519
<i>Percent of revenues</i>	64%	66%	64%

Note: Please refer to supporting Table 1 for reconciliations of non-GAAP costs and expenses to GAAP costs and expenses

# Profitability

<b>GAAP</b> <b>\$Millions</b>	<b>Q3'07</b>	<b>Q2'08</b>	<b>Q3'08</b>
<b>Income from Operations</b>	\$ 1,318	\$ 1,578	\$ 1,648
<i>Operating Margin</i>	31%	29%	30%
<b>Net Income</b>	\$ 1,070	\$ 1,247	\$ 1,290
<b>EPS (diluted)</b>	\$ 3.38	\$ 3.92	\$ 4.06

<b>Non-GAAP</b> <b>\$Millions</b>	<b>Q3'07</b>	<b>Q2'08</b>	<b>Q3'08</b>
<b>Income from Operations</b>	\$ 1,516	\$ 1,851	\$ 2,023
<i>Operating Margin</i>	36%	34%	37%
<b>Net Income</b>	\$ 1,237	\$ 1,472	\$ 1,563
<b>EPS (diluted)</b>	\$ 3.91	\$ 4.63	\$ 4.92

Note: Please refer to supporting Table 2 for reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures

# Free Cash Flow

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<b>\$Millions</b>	<b>Q3'07</b>	<b>Q2'08</b>	<b>Q3'08</b>
<b>Net cash provided by operating activities</b>	\$1,633	\$1,766	\$2,185
<b>Less purchases of property and equipment</b>	(\$553)	(\$697)	(\$452)
<b>Free cash flow (Non-GAAP)</b>	\$1,080	\$1,069	\$1,733

# Cash Flow Hedging 101:

## Why does Google need cash flow hedging?

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- Over 50% of Google's revenues are billed in currencies other than the U.S. dollar; however, we ultimately measure and report our financial results in U.S. dollars.
- As a result, we are subject to the impact of foreign exchange fluctuations on our revenue, earnings, and cash flow.
  - If the USD strengthens, our revenues invoiced in other currencies become less when translated to USD, and vice versa.
- In order to manage this risk, we have implemented a program to hedge against downside risk to our revenues and earnings reported in USD.

# Cash Flow Hedging 101: How does Google hedge?

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- We have a rolling program of foreign exchange options to hedge forecasted revenues over the next 18 months.
- We hedge revenue, but the amount of options we purchase is computed based on our economic exposure to a currency (revenue less expenses)
- In Q3 2008, we hedged revenues denominated in Euro, CAD, and GBP.
  - Note, however, that our GBP hedges were rolled out late in the quarter - so there was no benefit realized to revenues.

# Cash Flow Hedging 101: SFAS 133 – How does the accounting work?

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- SFAS 133 is the standard we use to account for our cash flow hedging program.
  - Prior to maturity, an option's unrealized gain or "intrinsic value" – the difference between the strike price of the option and the spot rate of the underlying currency – is recorded as Other Comprehensive Income (OCI) on our balance sheet *on a tax effected basis*.
  - At maturity, any unrealized gain is initially recorded to OCI and subsequently recognized as revenue – on a gross basis or before the tax effect - when the corresponding revenue (hedged item) is recognized.
  - During Q3, the amount reclassified to revenue from OCI was \$34M.
  - The unrealized gain in OCI does not necessarily reflect the eventual benefit to revenue; the ultimate benefit will depend on exchange rates at the maturity of the option contracts. The benefit to revenue will be recognized when the corresponding revenue (hedged item) is recognized within the next 18 months.

# Cash Flow Hedging 101: SFAS 133 – How does the accounting work?

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- Because we do not purchase in-the-money options (options with “intrinsic value”), the cost will always equal their “time value.”
- The cost or “time value” of the option is amortized over its term on a mark-to-market basis (*not* on a straight-lined basis) to Interest Income and Other, net.
- As a result, the amount of amortization expense we recognize in any particular quarter is impacted by how much the option moves into or out of the money, as well as the underlying currency’s volatility.
- The more an option moves into or out of the money, generally the lower its “time value,” and the greater the amount of amortization expense we will recognize. This could result in a front end loading of expense.

## Table 1 - Reconciliations of non-GAAP costs and expenses to GAAP costs and expenses

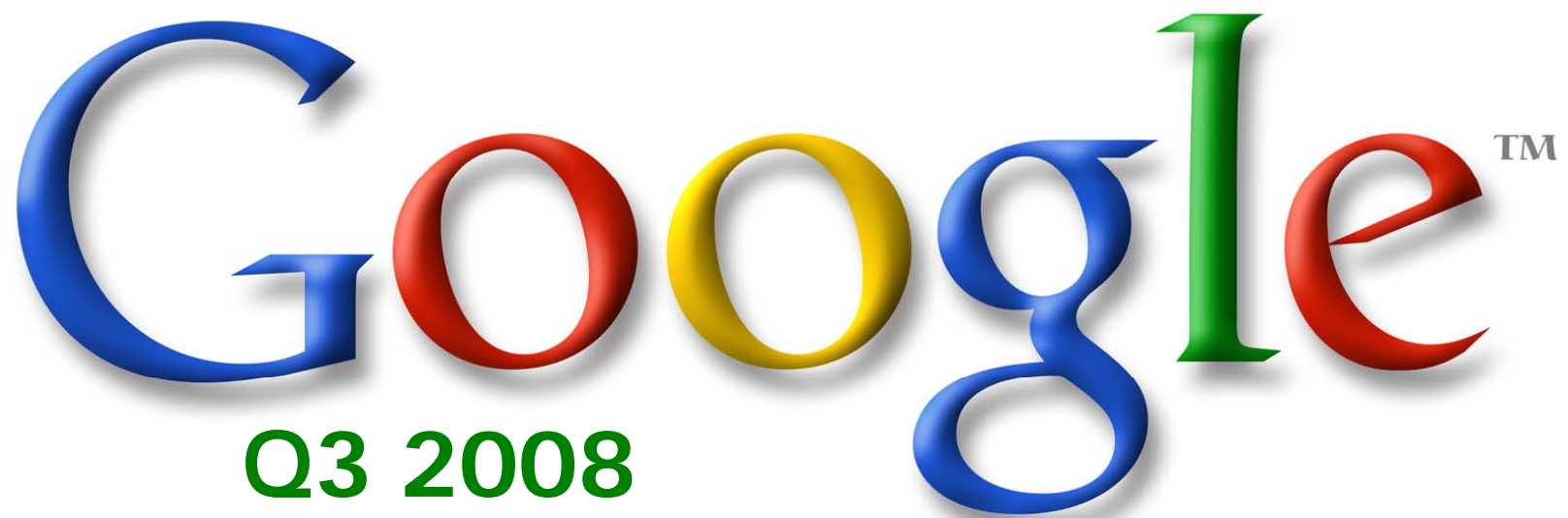
\$Millions	Q3'07	As a % of Revenues (1)	Q2'08	As a % of Revenues (1)	Q3'08	As a % of Revenues (1)
<b>Cost of Revenues (GAAP)</b>	\$ 1,663	39%	\$ 2,148	40%	\$ 2,173	39%
Less: Stock-based compensation	(4)		(9)		(11)	
<b>Cost of Revenues (non-GAAP)</b>	\$ 1,659	39%	\$ 2,139	40%	\$ 2,162	39%
<b>Research and development (GAAP)</b>	\$ 549	13%	\$ 682	13%	\$ 705	13%
Less: Stock-based compensation	(131)		(187)		(169)	
<b>Research and development (non-GAAP)</b>	\$ 418	10%	\$ 495	10%	\$ 536	10%
<b>Sales and marketing (GAAP)</b>	\$ 381	9%	\$ 485	9%	\$ 509	9%
Less: Stock-based compensation	(30)		(43)		(64)	
<b>Sales and marketing (non-GAAP)</b>	\$ 351	8%	\$ 442	8%	\$ 445	8%
<b>General and administrative (GAAP)</b>	\$ 321	8%	\$ 474	9%	\$ 507	9%
Less: Stock-based compensation	(33)		(34)		(36)	
Less: Settlement agreement with the Authors Guild and the Association of American Publishers ("AAP")	-		-		(95)	
<b>General and administrative (non-GAAP)</b>	\$ 288	7%	\$ 440	8%	\$ 376	7%
<b>Total costs and expenses (GAAP)</b>	\$ 2,914	69%	\$ 3,789	71%	\$ 3,894	70%
Less: Stock-based compensation and settlement agreement with the Authors Guild and the AAP	(198)		(273)		(375)	
<b>Total costs and expenses (non-GAAP)</b>	\$ 2,716	64%	\$ 3,516	66%	\$ 3,519	64%

(1) Percentages based on GAAP revenues of \$4,231 million in Q3 '07, \$5,367 million in Q2 '08 and \$5,541 million in Q3 '08.

## Table 2 - Reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures

Figures in millions except per share amounts	Q3'07	Operating Margin (1)	Q2'08	Operating Margin (1)	Q3'08	Operating Margin (1)
<b>Income from operations (GAAP)</b>	\$ 1,318	31%	\$ 1,578	29%	\$ 1,648	30%
Add: Stock-based compensation	198		273		280	
Add: Settlement agreement with the Authors Guild and the AAP	-		-		95	
<b>Income from operations (non-GAAP)</b>	\$ 1,516	36%	\$ 1,851	34%	\$ 2,023	37%
<b>Net income (GAAP)</b>	\$ 1,070		\$ 1,247		\$ 1,290	
Add: Stock-based compensation (net of tax)	167		225		217	
Add: Settlement agreement with the Authors Guild and the AAP (net of tax)	-		-		56	
<b>Net income (non-GAAP)</b>	\$ 1,237		\$ 1,472		\$ 1,563	
<b>Net income per share - diluted (GAAP)</b>	\$ 3.38		\$ 3.92		\$ 4.06	
<b>Net income per share - diluted (non-GAAP)</b>	\$ 3.91		\$ 4.63		\$ 4.92	
Shares used in per share calculation - diluted	317		318		318	

(1) Percentages based on GAAP revenues of \$4,231 million in Q3 '07, \$5,367 million in Q2 '08 and \$5,541 million in Q3 '08.



**Q3 2008**  
**Quarterly Earnings**  
**Summary**