

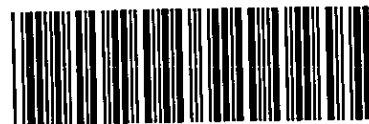
Registered number 03977902

GOOGLE UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

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Google UK Limited

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Google UK Limited

General Information

Directors	John Herlihy (resigned 10 February 2012) Graham Law Lloyd Hartley Martin (resigned 10 February 2012) John Kent Walker (resigned 10 February 2012) Don Harrison (resigned 24 July 2013) Nidhi Shah (appointed 24 July 2013)
Company secretary	TJG Secretaries Limited
Company number	03977902
Registered office	Belgrave House 76 Buckingham Palace Road London SW1W 9TQ
Auditors	Ernst & Young Harcourt Centre Harcourt Street Dublin 2 Ireland
Bankers	Citibank plc 336 Strand London WC2R 1HB
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW

Google UK Limited

Directors' report For the year ended 31 December 2012

The directors present this annual report and the audited financial statements of the Company for the year ended 31 December 2012

Principal activities

Google UK Limited ("Company") is engaged in the provision of marketing services to Google Ireland Limited and the provision of research and development services to Google Inc. There were no significant changes in the operation of the Company during the financial year under review.

Results for the year

There were no significant new activities that had a material impact on the Company's results during the financial year ended 31 December 2012.

There were no new products sold by the company and no new services introduced during the financial year ended 31 December 2012 that had a material impact on the financial statements.

Review of key performance indicators

Turnover increased from £395,757,534 to £506,044,506 in 2012, an increase of £110,286,972. Administrative expenses increased from £416,862,285 to £466,281,732 an increase of £49,419,447 in 2012. These increases relate to a higher demand for the Company's services and rise in employment and other costs which impact the service fee payable to the Company.

The profit and loss account and balance sheet are set out on pages 8 and 9, respectively. The profit for the financial year, amounting to £5,969,641 has been added to reserves.

Principal risks and uncertainties

As a provider of marketing services to Google Ireland Limited and research and development services to Google Inc, the Company's principal risks and uncertainties relate to scaling back its operations due to a reduction in demand for its services. The demand for its services would be impacted by the principal risks and uncertainties faced by Google Ireland Limited and Google Inc, namely:

- *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 their revenues almost entirely 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.*

Political and charitable contributions

During the year the Company made no political donations (2011: £nil) and made charitable donations of £1,001,795 (2011: £76,256). 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 its ultimate parent company, Google Inc. During the year, the Company spent £99,477,493 (2011: £62,485,040) on research and development. Such expenses may fall into the following categories: research, development, engineering and fixes or revisions.

Google UK Limited

Directors' report For the year ended 31 December 2012

Future developments

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

Going Concern

The directors of the Company have received written assurances from the ultimate parent undertaking, 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 it is appropriate to prepare the financial statements on a going concern basis.

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 operates a Share Incentive Plan and Cash Bonus Plan that rewards 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 £5,969,641 (2011 loss of £24,166,011). The directors do not recommend the payment of a dividend (2011 £nil).

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined in section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, a directors' and officers' liability insurance policy was maintained by the Google Inc group throughout the financial year.

Subsequent Events

On the 25th June 2013, Google UK Limited entered into a 999 year land lease with King's Cross Central Limited Partnership. The total cost of the lease is GBP 277m. In order to finance this significant investment, the Company has obtained a loan facility from a related party in the amount of GBP 250m, and has issued additional share capital to its Parent Company in the amount of GBP 50m, these events took place in May 2013. It is Google UK's intention to build a new office space on the property.

Google UK Limited

Directors' report For the year ended 31 December 2012

Directors

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

John Herlihy (resigned 10 February 2012)

Graham Law

Lloyd Hartley Martin (resigned 10 February 2012)

John Kent Walker (resigned 10 February 2012)

Don Harrison (resigned 24 July 2013)

Nidhi Shah (appointed 24 July 2013)

Statement of directors' responsibilities

The directors are responsible for preparing the 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 year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that financial year.

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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/she is obliged to take as a director in order to make himself/herself 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

Graham Law

Director

Date 20 09 13



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 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities (set out on page 5), 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 Directors' Report to identify material inconsistencies with the audited financial statements. 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 31 December 2012 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.

Google UK Limited

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

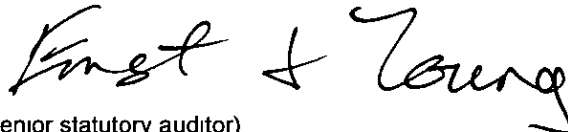
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

Date 23 September 2013

Google UK Limited

Registered number 03977902

Profit and loss account for the year ended 31 December 2012

	Notes	2012 GBP	2011 GBP
Turnover	2	<u>506,044,506</u>	<u>395,757,534</u>
Gross profit		506,044,506	395,757,534
Administrative expenses	3	<u>(466,281,732)</u>	<u>(416,862,285)</u>
Operating profit / (loss)		39,762,774	(21,104,751)
Interest receivable and similar income	4	666,673	387,186
Interest payable and similar charges	5	<u>(3,623,880)</u>	<u>-</u>
Profit / (loss) on ordinary activities before taxation		36,805,567	(20,717,565)
Provision for income taxes	8	<u>(30,835,926)</u>	<u>(3,448,446)</u>
Profit / (loss) for the financial year		<u><u>5,969,641</u></u>	<u><u>(24,166,011)</u></u>

Turnover and operating profit arose solely from continuing operations

Statement of Recognised Gains and Losses

There are no recognised gains and losses in either year other than those included in the profit attributable to the shareholder of the Company, and therefore, no separate statement of total recognised gains and losses has been prepared

The notes on pages 10 to 26 form an integral part of these financial statements

Google UK Limited

Registered number 03977902

Balance Sheet as at 31 December 2012

	Notes	2012 GBP	2011 GBP
Fixed assets			
Tangible assets	9	<u>74,701,583</u>	<u>45,707,442</u>
		74,701,583	45,707,442
Current assets			
Debtors	10	66,274,589	41,139,787
Cash and cash equivalents		<u>108,476,077</u>	<u>116,322,997</u>
		174,750,666	157,462,784
Creditors amounts falling due within one year	11	(149,123,688)	(112,555,157)
Net current assets		<u>25,626,978</u>	<u>44,907,627</u>
Total assets less current liabilities		100,328,561	90,615,069
Creditors amounts falling due after one year	12	(7,437,445)	(2,993,474)
Provisions for liabilities and charges	14	<u>(9,331,027)</u>	<u>(9,016,943)</u>
Net assets		<u>83,560,089</u>	<u>78,604,652</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Other capital reserves	16	161,516,749	162,530,953
Profit and loss account	16	<u>(77,957,660)</u>	<u>(83,927,301)</u>
Shareholders' funds		<u>83,560,089</u>	<u>78,604,652</u>

The financial statements on pages 8 to 9 and supporting notes to the financial statements on pages 10 to 26 were approved by the board of directors on 20.09.13 and were signed on its behalf by

Graham Law
Director



Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

1 Principal accounting policies and basis of preparation

Basis of preparation of financial statements

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The principal accounting policies, which have been applied consistently in the current and previous financial year, are set out below.

Exemptions availed

The Company is a wholly owned subsidiary of Google Inc. and is included in the consolidated financial statements of Google Inc., which are publicly available. Consequently, the Company has taken advantage of the following exemptions:

Cash flow statement

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements".

Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions", from disclosing related-party transactions with subsidiary undertakings wholly owned by Google Inc.

Foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in British Pounds ("£") which is the Company's functional currency.

Transactions denominated in foreign currencies relating to revenue, costs, monetary assets and liabilities, and non-monetary assets and liabilities are 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 dealt with in the profit and loss account.

Turnover

Turnover represents the amount of fee payable in respect of services provided during the year to Google Inc. and Google Ireland Limited. The Company recognises revenue in accordance with service agreements.

Pensions

The Company operates a defined contribution pension scheme. The expected cost of providing pensions to employees is charged to the profit and loss account as incurred over the period of employment of pensionable employees.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

1 Principal accounting policies and basis of preparation (continued)

Taxation

The charge for taxation is based on the profit for the year

Deferred tax is provided on timing differences to the extent that it is expected to become recoverable in the foreseeable future and any amount not provided for is disclosed as a contingent liability/asset. Deferred tax arises in respect of items where there is a timing difference between the treatment for accounting purposes and the treatment for taxation purposes. Deferred tax balances are not discounted. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term. Lease premiums and similar incentives that are received or paid are treated as deferred or accrued income and released to the profit and loss account on a straight line basis over the lease term or, where applicable, over the period to the next rent review.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions or the expected costs of dilapidation costs are charged against profits when the lease agreement is signed. The time effect value of money is not material and therefore the provisions are not discounted.

Research and development

Research and development expenditure is expensed to the profit and loss account in the year in which it is incurred.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Leasehold improvements	- over the life of the lease
Furniture and Fixtures	- 20% straight line
Construction in progress	- no depreciation as assets are not in use
Information Technology Assets	
- Production and network equipment	- 33% straight line
- Computer equipment and software	- 50% straight line

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. The share-based payment 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 various highly judgmental assumptions including expected volatility and expected term.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies and basis of preparation (continued)

Share based payments (continued)

The Company is required to estimate the expected forfeiture rate and only recognise expense for those shares expected to vest. They estimate the forfeiture rate based on historical experience. 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 balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity ("Other capital reserves" account).

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

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

The Company reimburses Google Inc for share options / RSUs issued to its employees. The share-based payment expense and share-based payment recharge are recorded separately in "Other capital reserves".

Cash settled transactions

The Company does not have share based payments resulting from cash settled transactions.

2 Turnover

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

Geographical market

	2012 GBP	2011 GBP
Research and development service fee (US)	109,425,242	69,051,566
Sales and marketing service fee (Ireland)	<u>396,619,264</u>	<u>326,705,968</u>
	<u>506,044,506</u>	<u>395,757,534</u>

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

3. Administrative expenses

	2012 GBP	2011
Advertising and promotional expense	112,204,333	105,474,848
Professional services	14,958,311	9,815,144
Auditors Remuneration	55,000	55,000
Share based compensation expense	50,187,012	51,457,135
Depreciation and amortisation expense	12,192,308	5,748,424
Employee benefit expense	208,652,674	190,644,447
Other administrative expenses	68,032,094	53,667,487
	<u>466,281,732</u>	<u>416,862,285</u>

4. Interest receivable and similar income

	2012 GBP	2011 GBP
Interest Income	<u>666,673</u>	<u>387,186</u>
	<u>666,673</u>	<u>387,186</u>

5. Interest Payable and Similar Charges

	2012 GBP	2011 GBP
Interest payable and similar charges	<u>3,623,880</u>	-
	<u>3,623,880</u>	-

Included within interest payable for 2012 is £3,608,000 relating to a provision for interest on corporation tax in respect of employee share based compensation

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

6 Employee information

Staff costs, including directors' remuneration, were as follows

	2012 GBP	2011 GBP
Wages and salaries	234,936,887	213,726,592
Social security costs	16,933,433	22,908,638
Other pension costs	6,969,366	5,466,352
	<u>258,839,686</u>	<u>242,101,582</u>

Included in wages and salaries is a total expense for share based payments of £50 1m (2011 £51 4m)

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

	2012 GBP	2011 GBP
Marketing	863	723
Research and development	440	313
Management and administration	310	268
	<u>1,613</u>	<u>1,304</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.

Five (2011 four) directors hold share options in the ultimate parent undertaking, Google Inc. Five (2011 three) of the directors exercised options during the year.

During the year there were no retirement benefits accruing to any directors (2011 nil) in respect of the Company's defined contribution scheme.

During the year the highest paid director received remuneration of £nil (2011 £nil).

7 Pension costs

The Company operates a defined contribution scheme for certain employees. The employees' pension entitlements are secured by contributions by the Company to a separately administered pension fund. The defined contribution pension charge for the year was £6,969,366 (2011 £5,466,352).

As at 31 December 2012 pension contributions of £1,179,679 were outstanding (2011 £974,761).

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

8 Taxation

	2012 GBP	2011 GBP
Analysis of tax charge for the year		
Current tax		
UK corporation tax on profit for the year	11,589,031	6,099,078
Provision for corporation tax in respect of employee share based compensation (see note below)	24,069,879	-
Adjustments in respect of prior years	<u>(340,550)</u>	<u>1,153,201</u>
Total current tax	<u>35,318,360</u>	<u>7,252,279</u>
Deferred tax		
Origination and reversal of timing differences	(6,294,509)	(4,565,076)
Adjustment in respect of previous periods	481,150	(136,119)
Changes in tax rates or laws	<u>1,330,925</u>	<u>897,362</u>
Total deferred tax (see note 13)	<u>(4,482,434)</u>	<u>(3,803,833)</u>
Total charge on profit on ordinary activities	<u>30,835,926</u>	<u>3,448,446</u>

The provision of £24.0m above relates to how share-based compensation is treated for corporation tax purposes. This is a matter the Company is discussing with HMRC in an ongoing review initiated in 2010. The Company has made a provision of £24.0m for potential corporation tax for the years under review (2005-2011).

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2011 lower than) the standard rate of corporation tax in the UK of 24.49% (2011: 26.49%). The differences are explained below:

	2012 GBP	2011 GBP
Profit/(loss) and ordinary activities before tax	36,805,567	(20,717,565)
Profit/(loss) on ordinary activities multiplied by standard rate corporation tax in the UK of 24.49% (2011: 26.49%)	9,013,683	(5,488,083)
Effects of:		
Expenses not deductible for tax purposes	1,587,273	4,569,194
Depreciation for the year in excess of capital allowances	301,664	551,858
Adjustments to tax charge in respect of prior periods	(340,550)	1,153,201
Provision for corporation tax in respect of employee share based compensation	24,069,879	-
Other timing differences leading to an increase in taxation	726,802	782,901
Differences arising in respect of tax deduction on exercise of options and stock units	2,182,503	5,683,208
R&D tax relief	(2,222,894)	-
Current tax charge for the year	35,318,360	7,252,279

Factors affecting future tax charges

Further reduction to the UK Corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget. These include further reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Google UK Limited

Notes to the financial statements
for the year ended 31 December 2012

9 Tangible Fixed Assets

	Leasehold improvements		Information technology assets		Furniture and fixtures		Construction in progress		Total	
	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Costs										
As at 1 January 2012	32,152,876	22,289,128	4,863,115	9,983,733	69,288,852					
Additions costs	18,027,688	10,818,040	1,969,582	10,949,069	41,764,379					
Disposals costs	(245,976)	(6,552,453)	(532,093)	-	(7,330,522)					
Transfer costs	13,468,701	641,438	1,455,003	(15,565,142)	-					
As at 31 December 2012	63,403,289	27,196,153	7,755,607	5,367,660	103,722,708					
Depreciation										
As at 1 January 2012	6,628,157	13,562,759	3,390,494	-	23,581,410					
Charge for the year	6,080,142	4,825,510	1,286,656	-	12,192,308					
Disposals depreciation	(245,976)	(6,043,907)	(462,710)	-	(6,752,593)					
As at 31 December 2012	12,462,323	12,344,362	4,214,440	-	29,021,125					
Net book value										
At 31 December 2012	50,940,966	14,851,790	3,541,167	5,367,660	74,701,583					
At 31 December 2011	25,524,719	8,726,369	1,472,621	9,983,733	45,707,442					

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

10. Debtors

	2012 GBP	2011 GBP
Amounts owed by group companies	24,141,727	9,005,564
Prepayments and accrued income	9,514,301	7,271,050
Deferred tax asset (note 13)	16,791,158	12,308,724
VAT receivable	14,532,722	9,913,243
Other debtors	<u>1,294,681</u>	<u>2,641,206</u>
	<u>66,274,589</u>	<u>41,139,787</u>

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

Included in amounts owed by group companies is an amount of £17m which was converted to an interest free loan with a related party on 30th June 2013. This loan is repayable by 30th June 2015.

Other debtors includes an amount of £134,203 (2011: £nil) which is due after more than one year.

Included within the deferred tax asset balance of £16.8m is an amount of £13m 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.

11. Creditors: amounts falling due within one year

	2012 GBP	2011 GBP
Amounts owed to group companies	14,005,257	8,710,724
Trade creditors	34,640,475	17,508,742
Accruals and deferred income	53,926,004	70,643,832
Income Tax Payable	33,677,799	2,182,125
Other creditors including tax and social welfare	<u>12,874,153</u>	<u>13,509,734</u>
	<u>149,123,688</u>	<u>112,555,157</u>

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

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

12. Creditors: amounts falling due after more than one year

	2012 GBP	2011 GBP
Accruals and deferred income	3,624,942	2,701,762
Deferred rent, non current	<u>3,812,503</u>	<u>291,712</u>
	<u>7,437,445</u>	<u>2,993,474</u>

Amounts falling due after more than year are payable within 5 years

13. Deferred tax asset

	2012 GBP	2011 GBP
At 1 January	12,308,724	8,504,891
Credited to profit and loss account (see note 8)	4,963,584	3,667,714
Adjustment in respect of prior periods	<u>(481,150)</u>	<u>136,119</u>
At 31 December	<u>16,791,158</u>	<u>12,308,724</u>

The deferred tax asset is made up as follows:

	2012 GBP	2011 GBP
Decelerated capital allowances	2,228,960	2,596,078
Short term timing differences	14,562,198	9,712,646
Losses	-	1,276,770
Deferred tax not provided	<u>-</u>	<u>(1,276,770)</u>
	<u>16,791,158</u>	<u>12,308,724</u>

A deferred tax asset of £13,184,777 (2011 £8,964,382) has been recognised in respect of the share options as the directors are of the opinion that a tax deduction will be likely in the future. The remaining deferred tax asset recognised within the short term timing differences is pensions and bonuses of £1,377,421 (2011 £748,264).

For all periods ending on or after 2 July 2013, deferred tax is calculated using the 20% rate of corporation tax. This rate reduction will reduce the deferred tax asset by approximately £2.2m. The change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in these financial statements.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

14 Provision for liabilities and charges

	Onerous lease provision GBP	Asset Retirement Obligation GBP	Total GBP
At 1 January 2012	1,685,823	7,331,120	9,016,943
Additions	-	649,000	649,000
Utilised during the year	<u>(334,916)</u>	<u>-</u>	<u>(334,916)</u>
At 31 December 2012	<u>1,350,907</u>	<u>7,980,120</u>	<u>9,331,027</u>

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 2015 and a further 3 leases due to expire in 2021/22, all leases have a contractual obligation to make good any dilapidations. The provision represents management's best estimate of the present obligation.

15 Share capital

	2012 GBP	2011 GBP
Allotted, called up and fully paid		
1,000 - Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

16 Reconciliation of movement in shareholder's funds

	Share capital GBP	Retained loss GBP	Other capital reserves GBP	Total GBP
Balance at 1 January 2011	1,000	(59,761,290)	111,073,818	51,313,528
Loss for the year	-	(24,166,011)	-	(24,166,011)
Share based compensation expense	-	-	51,457,135	51,457,135
Balance at 31 December 2011	1,000	(83,927,301)	162,530,953	78,604,652
Balance at 1 January 2012	1,000	(83,927,301)	162,530,953	78,604,652
Profit for the year	-	5,969,641	-	5,969,641
Share based compensation expense	-	-	50,187,012	50,187,012
Share based compensation recharge	-	-	(51,201,216)	(51,201,216)
Balance at 31 December 2012	1,000	(77,957,660)	161,516,749	83,560,089

17 Share based payments

The Company's ultimate parent undertaking, Google Inc ("Google"), maintains the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No 2), the 2003 Stock Plan (No 3), the 2004 Stock Plan, and plans assumed through acquisitions, all of which are collectively referred to as the "Stock Plans". Under the Stock Plans, incentive and nonqualified share options or rights to purchase common shares 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 the Stock Plans, Google has also issued Restricted Share Units ("RSUs") and restricted shares. An RSU award is an agreement to issue shares of Google'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. These RSUs vest from zero to 50.0% of the grant amount at the end of each of the four years from date of hire based on the employee's performance. RSUs under the Founders' Award programs are issued to individuals on teams that have made extraordinary contributions to Google. These awards vest quarterly over four years contingent upon employment with the Company on the vesting dates.

Google estimated the fair value of each option award on the date of grant using the Black-Scholes-Merton ("BSM") option pricing model. Assumptions about share-price volatility have been based exclusively on the implied volatilities of publicly traded options to buy Google's shares with contractual terms closest to the expected life of options granted to employees. Assumptions about the expected term are estimated based upon the historical exercise behaviour of employees. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

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 Inc for share options / RSUs granted to its employees. The reimbursement for 2012 was €51.2 million. The share-based payment charge and the share-based payment recharge are shown separately under "Other equity reserves".

The following table presents the weighted-average assumptions used to estimate the fair values of the share options granted in the period presented

	2012	2011
Expected stock volatility	0.35	0.33
Options life (years)	5.9	6.93
Expected life (years)	5.4	5.9
Risk free interest rate	0.019	0.023
Expected dividends expressed as a dividend yield	-	-

The weighted average fair value per award granted is as follows

Weighted average fair value per award granted - options	US\$593.93	US\$580.81
Weighted average fair value per award granted - RSUs	US\$561.87	US\$537.13

Ordinary share option and RSU activities in the UK consisted of the following

Ordinary share options

	2012	2012	2011	2011
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding at 1 January	263,473	394.97	315,244	355.38
Net transfer to other group undertakings	(40,450)	394.97	(13,227)	355.38
Granted	24,432	623.16	28,427	580.81
Exercised	(58,876)	399.14	(60,667)	307.04
Forfeited / cancellations	(2,093)	389.19	(6,304)	360.28
Outstanding at 31 December	<u>186,486</u>	<u>430.45</u>	<u>263,473</u>	<u>394.97</u>
Exercisable at 31 December	<u>113,135</u>	<u>364.19</u>	<u>135,996</u>	<u>340.77</u>

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

Restricted Stock Units

	2012 Number of shares	2012 Weighted average market price \$	2011 Number of shares	2011 Weighted average market price \$
Outstanding at 1 January	296,599	521 32	247,344	497 28
Net transfer to other group undertakings	(53,993)	521 32	(9,926)	497 28
Granted	170,655	595 92	159,165	537 13
Exercised	(102,255)	520 10	(93,830)	493 14
Forfeited / cancellations	(13,982)	561 84	(6,154)	493 74
Outstanding at 31 December	<u>297,024</u>	<u>561 87</u>	<u>296,599</u>	<u>521 32</u>
Expected to vest after 31 December *	<u>257,936</u>	<u>561 87</u>	<u>265,693</u>	<u>521 32</u>

* RSUs and restricted shares expected to vest reflect an estimated forfeiture rate

Net transfers to other group undertakings relate to employees of Google UK Limited being re-employed by other group undertakings

The table below summarises information regarding Google's outstanding share options

Google UK Limited

**Notes to the financial statements
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17 Share based payments (continued)

Ordinary share options

Range of exercise price	2012			2011		
	Weighted average exercise price \$	Number of share options	Weighted average remaining life (years)	Weighted average exercise price \$	Number of share options	Weighted average remaining life (years)
\$0.30 - \$100.00	57.02	1,367	5.65	61.02	8,972	3.46
\$100.01 - \$200.00	185.10	1,100	2.07	186.71	2,637	3.11
\$200.01 - \$300.00	256.25	1,769	2.89	265.63	4,017	3.75
\$300.01 - \$400.00	310.27	82,908	5.03	311.15	131,238	5.99
\$400.01 - \$500.00	436.33	17,900	6.50	436.79	23,929	7.54
\$500.01 - \$600.00	543.72	61,596	7.91	544.58	89,477	12.41
\$600.01 - \$700.00	630.53	19,846	9.05	606.53	3203	9.04

Google UK Limited

**Notes to the financial statements
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17 Share based payments (continued)

Restricted Stock Units

Range of exercise price	2012			2011		
	Weighted average market price \$	Number of share	Weighted average remaining life (years)	Weighted average market price \$	Number of shares	Weighted average remaining life (years)
\$231.29 - \$300.00	-	-	-	284.33	59	0.87
\$300.01 - \$400.00	355.13	1,158	0.24	363.45	19,857	1.25
\$400.01 - \$500.00	480.76	877,210	2.04	477.04	97,605	2.81
\$500.01 - \$600.00	568.07	2,155,754	2.57	554.09	153,003	2.68
\$600.01 - \$700.00	637.41	488,979	3.07	1,195.08	26,075	3.32
\$700.01 - \$800.00	762.50	45,520	3.67	-	-	-

Google UK Limited

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

The weighted average share price during the period for options exercised over the year was \$399.14 (2011 \$307.04). The total charge for the year relating to employee share based payment plans was £50,187,012 (2011 £51,457,135), all of which related to equity share based payment transactions. After deferred tax, the total charge was £41,132,812 (2011 £44,499,969), as the related deferred tax asset has been recognised (see note 13).

18 Operating lease commitments

At 31 December 2012 the Company had annual commitments for rental property under non-cancellable operating leases as follows:

	2012 GBP	2011 GBP
Expire date		
Within 1 year	21,010	25,892
Between 2 and 5 years	2,074,930	1,513,472
After more than 5 years	18,327,035	18,125,510
	<u>20,422,975</u>	<u>19,664,874</u>

19 Subsequent Events

On the 25th June 2013, Google UK Limited entered into a 999 year land lease with King's Cross Central Limited Partnership. The total cost of the lease is GBP 277m. In order to finance this significant investment, the Company has obtained a loan facility from a related party in the amount of GBP 250m, and has issued additional share capital to its Parent Company in the amount of GBP 50m, these events took place in May 2013. It is Google UK's intention to build a new office space on the property.

20 Immediate and ultimate parent undertakings

The Company's immediate parent undertaking is Google International LLC.

The Company's ultimate parent undertaking is Google Inc., a company incorporated in Delaware, USA. The largest group in which the results of the Company are consolidated is that headed by Google Inc. and the consolidated financial statements are available to the public and may be obtained from 1600 Amphitheatre Parkway, Mountain View CA 94043.