

**Google™**  
**Analyst Day 2006**

# Welcome

George Reyes  
Chief Financial Officer



# Agenda

---

<b>10:00am</b>	Welcome George Reyes
<b>10:05am</b>	Opening Remarks Eric Schmidt
<b>10:25am</b>	Product / Technology Panel Jonathan Rosenberg
<b>11:25am</b>	Sales Panel Omid Kordestani
<b>12:10pm</b>	Lunch
<b>12:50pm</b>	Financial Review George Reyes
<b>1:20pm</b>	Executive Panel
<b>2:00pm</b>	Closing Remarks
<b>2:05pm</b>	Product Demos
<b>4:00pm</b>	Last Shuttle to Parking Lot

# The Google Story

---

- Largest single source for the world's information
- Powerful, self-reinforcing business model
- World class talent
- Deep pipeline of new products and monetization opportunities
- Extraordinary growth and profitability track record
- Disciplined investments for the long term health of the business

**Google™**  
**Analyst Day 2006**

# Opening Remarks

Dr. Eric Schmidt  
Chief Executive Officer





Global

People



Information



Products  
and Services

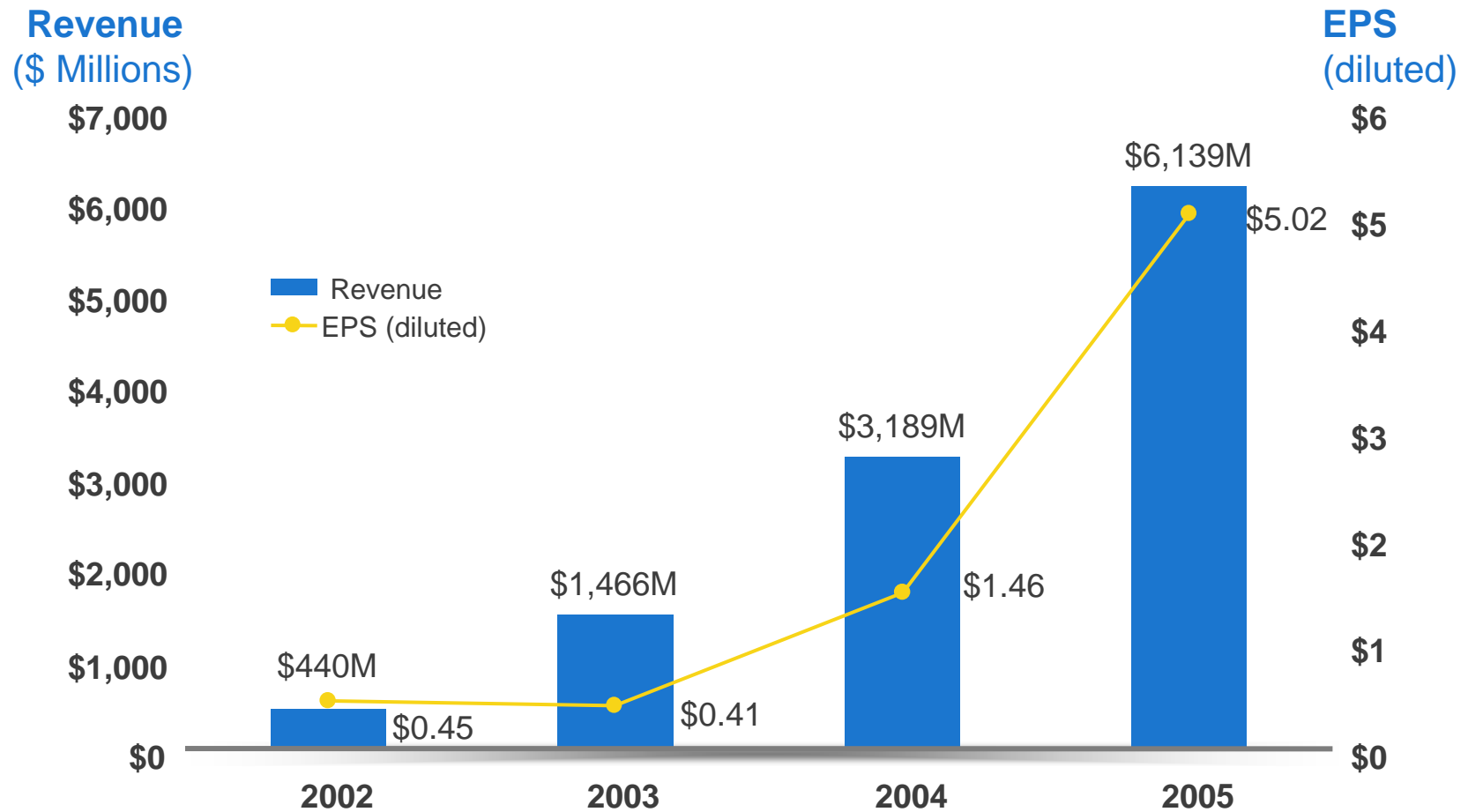


# How We Think About Big Problems



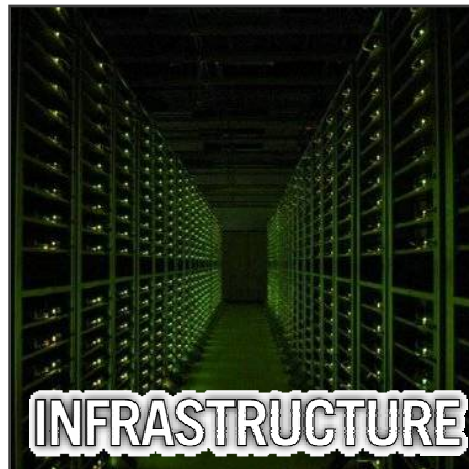
# Key Accomplishments – Financial Growth

---



# Key Accomplishments – Progress & Leadership

---



# 2006 Strategic Priorities

---

1. Search quality and end user traffic

2. Quality of advertisements as perceived by end users

3. Building new products and services for publishers of information

4. Growing our overall partnerships

5. Building the systems and infrastructure of a global \$100B company

# Lead in Search

---



# Lead in Search

---

## Drive Search Innovation

- Provide unified search experience by integrating multiple verticals and data sources through UI and ranking solutions
- Guide users to help them search better
- Encourage our large user base to actively contribute metadata that leads to better search results

# More Complete Ads System

---

**FORTUNE**  
**5**  
HUNDRED

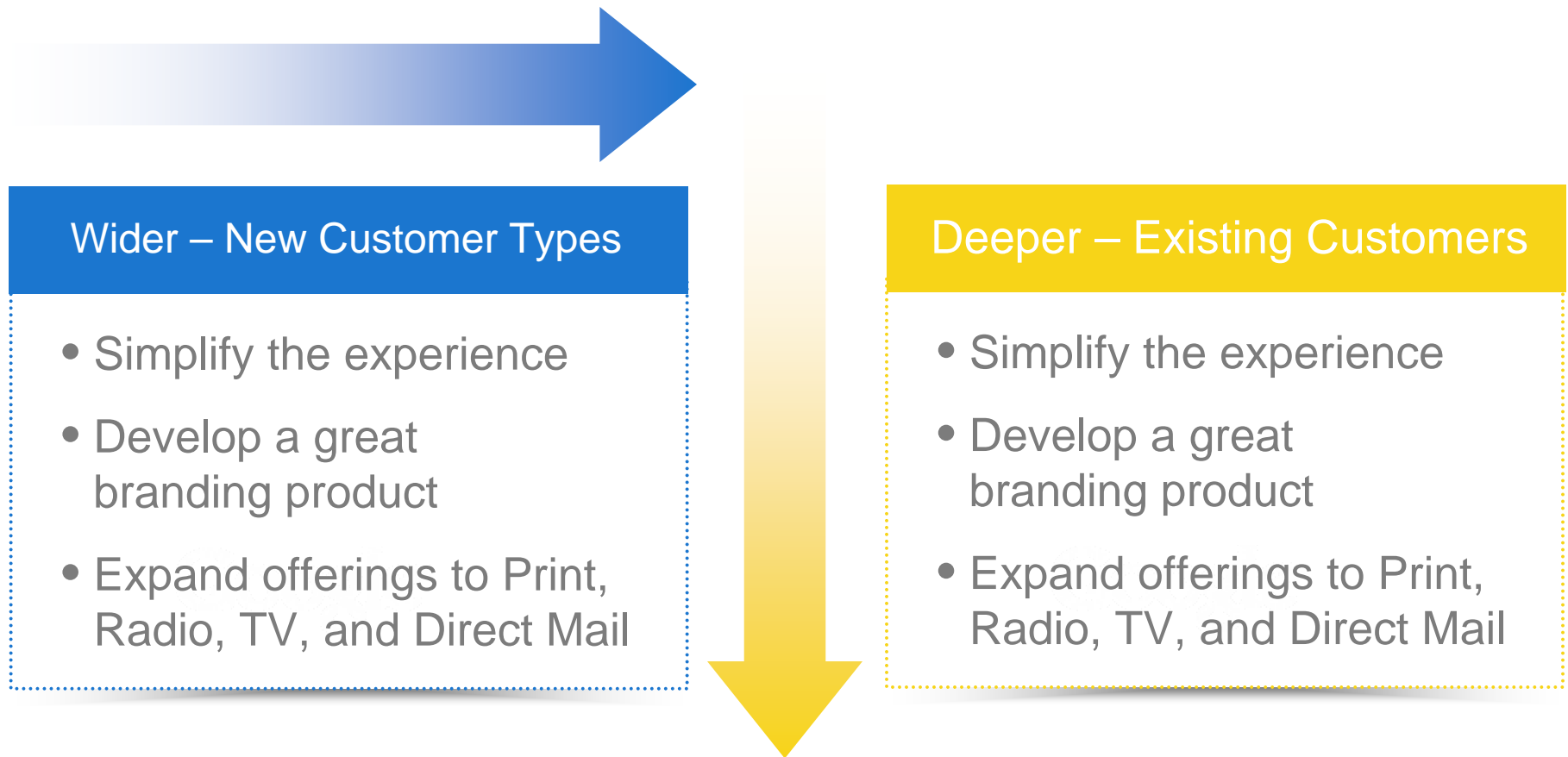


# Collective Wisdom



# Provide a More Complete Ads System

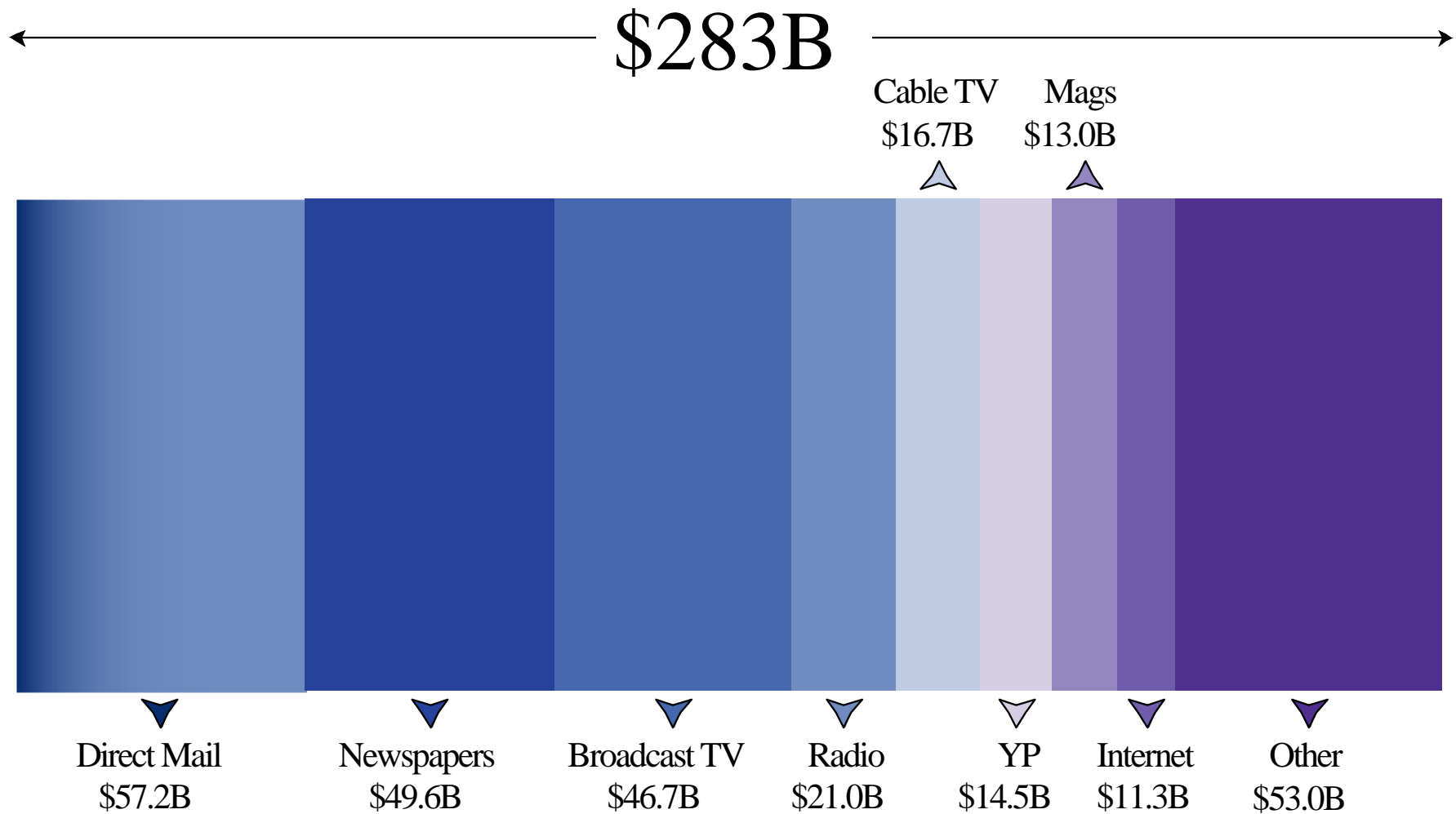
---



# Growth and Accountability



# Solving Big Problems



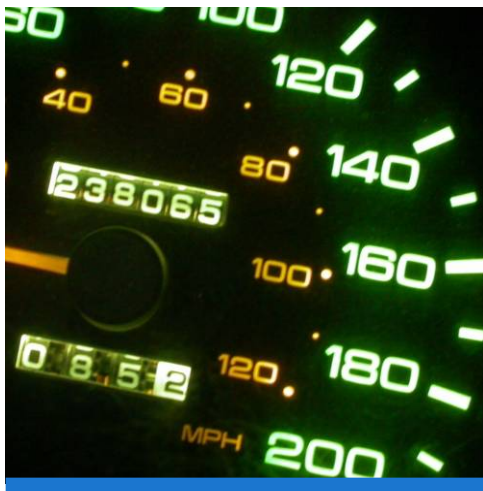
Source: Universal McCann (December 2005)

Note: "Other" includes outdoor, product placement, satellite radio, movie trailers, video games, specialty marketing, etc.

# Consumer Products and Services

---

Speed



Store 100%

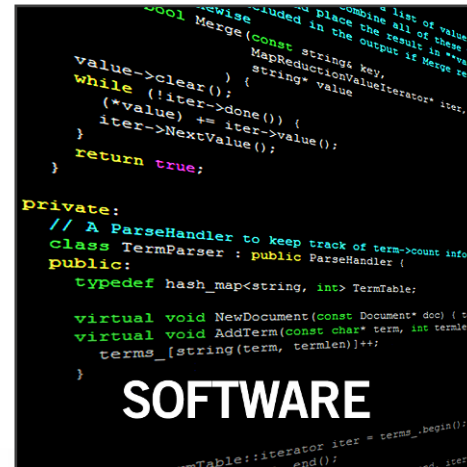


Transparent  
Personalization



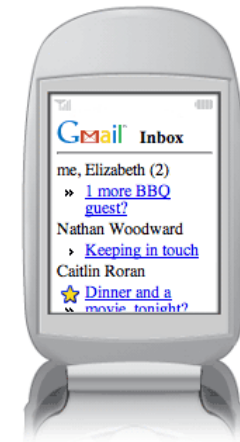
# Google Evolution

---



# Build the Biggest Footprint

---



# Addressing the Key Issues

---



Three Months Ended September 30,		Nine Months September 30,
2004	2005	2004
\$805,887	\$1,578,456	\$2,157,722
(unaudited)		
362,099	653,826	1,003,874
57,409	151,721	138,190
65,512	104,996	170,193
40,774	92,434	87,857
67,981	46,308	219,215
201,000		
794,775		
11,112		

MARGINS





**2006  
Strategy**

Lead  
in Search

Provide a  
more complete  
Ads system

Solve users'  
needs and desires  
beyond Search

Build  
the best  
hardware  
& software  
infrastructure

Build  
the biggest  
footprint

Scale  
to our huge  
opportunity

Establish  
thought leadership  
position in industry

---

# Thank You!

**Eric Schmidt**  
CEO  
Google Inc.

**Google™**  
**Analyst Day 2006**

# Google Product Philosophy and Strategy

Jonathan Rosenberg  
SVP, Product Management



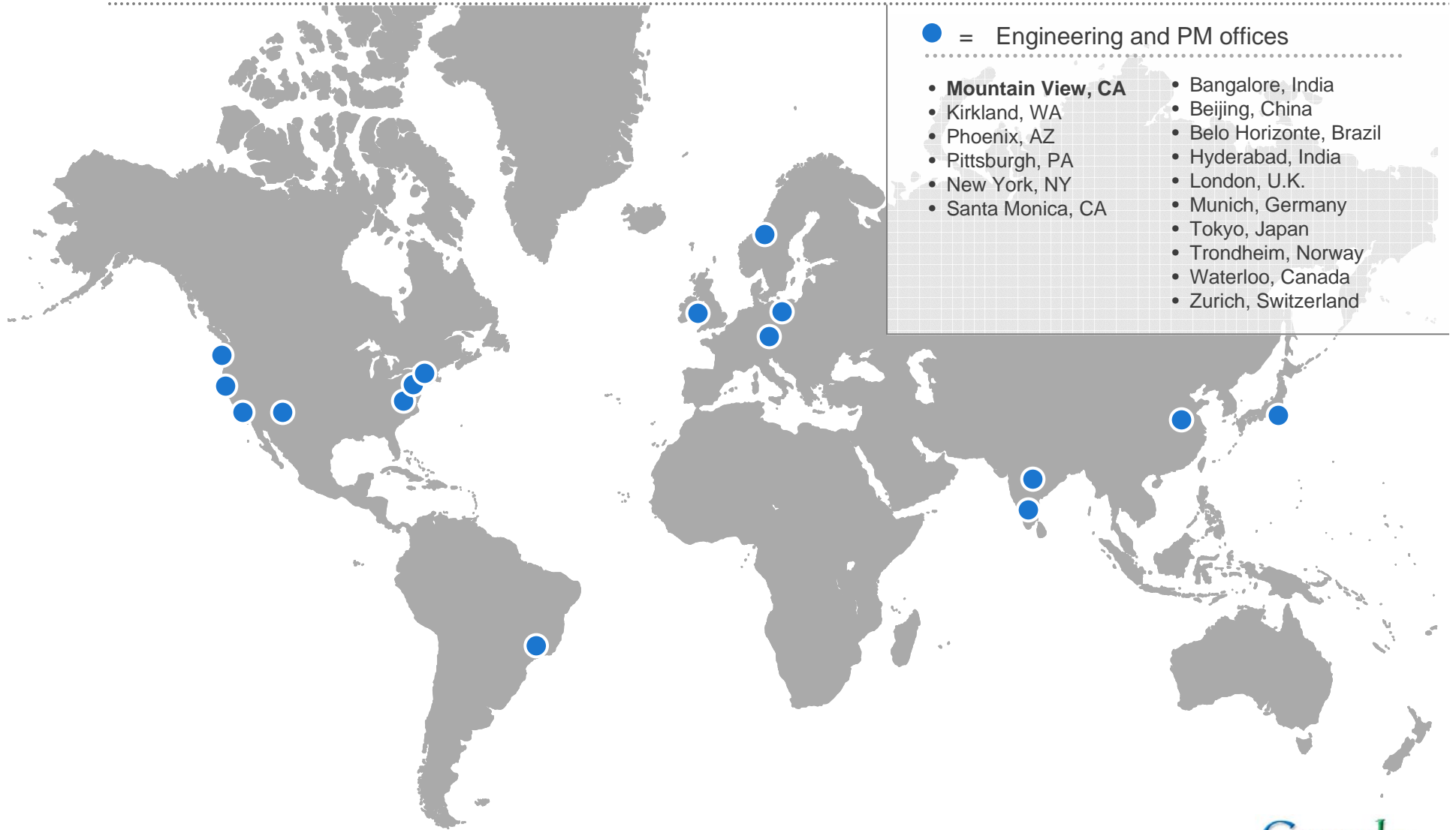
# A Note From Our Lawyers

---

- The following presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements regarding our future financial position and business strategy, our plans and objectives for future operations, and our expectations regarding the future growth of the Internet advertising market.
- These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Many of the factors that could cause or contribute to such differences are described in the “Risk Factors” section of our most recent 10-K and 10-Q filed with the SEC, including:
  - competition that we face from web search providers, Internet advertising companies, destination web sites and traditional media companies,
  - our expectations regarding revenue growth rates and operating margins, and
  - our ability to successfully innovate and provide new products and services to our users, advertisers and Google Network members.
- In light of these risks and uncertainties, the forward-looking statements included in this presentation may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.



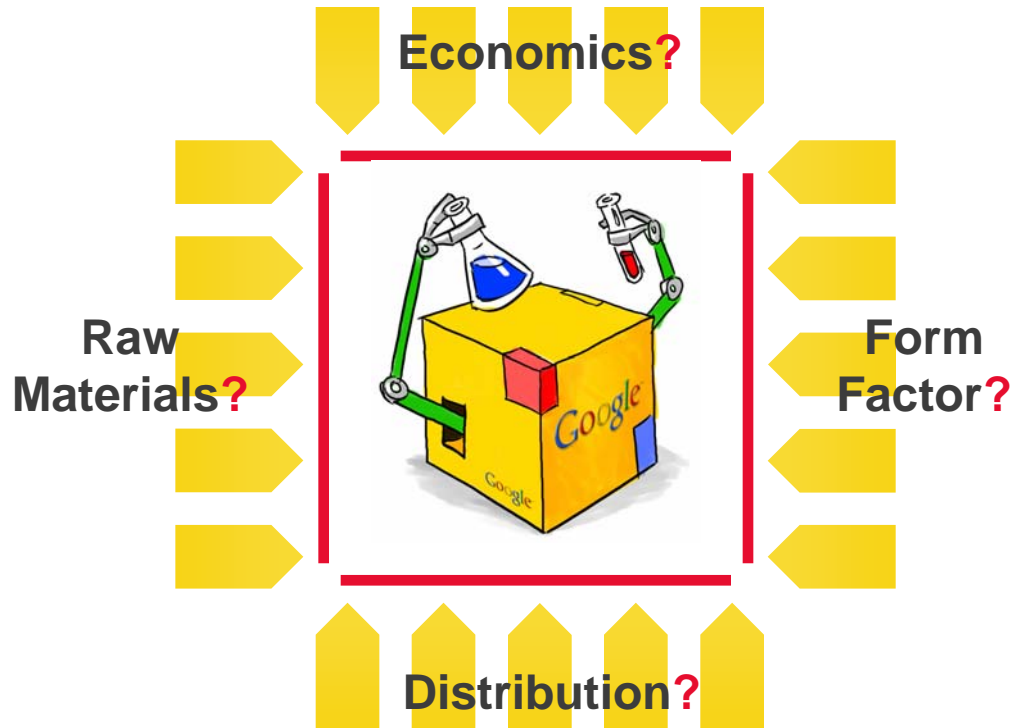
# Google Product Development Around The World



# Traditional Approach To Products

---

## Traditional Constraints



# Our Approach To Products

---

## Philosophy: No constraints

### Initially ignore:

- CPU power
- Storage
- Bandwidth
- Monetization



### Our Approach To Problems

- Focus on the user and the revenues will follow
- You can make money without being evil
- Fast is better than slow
- There's always more information out there
- You don't need to be at your desk to need an answer

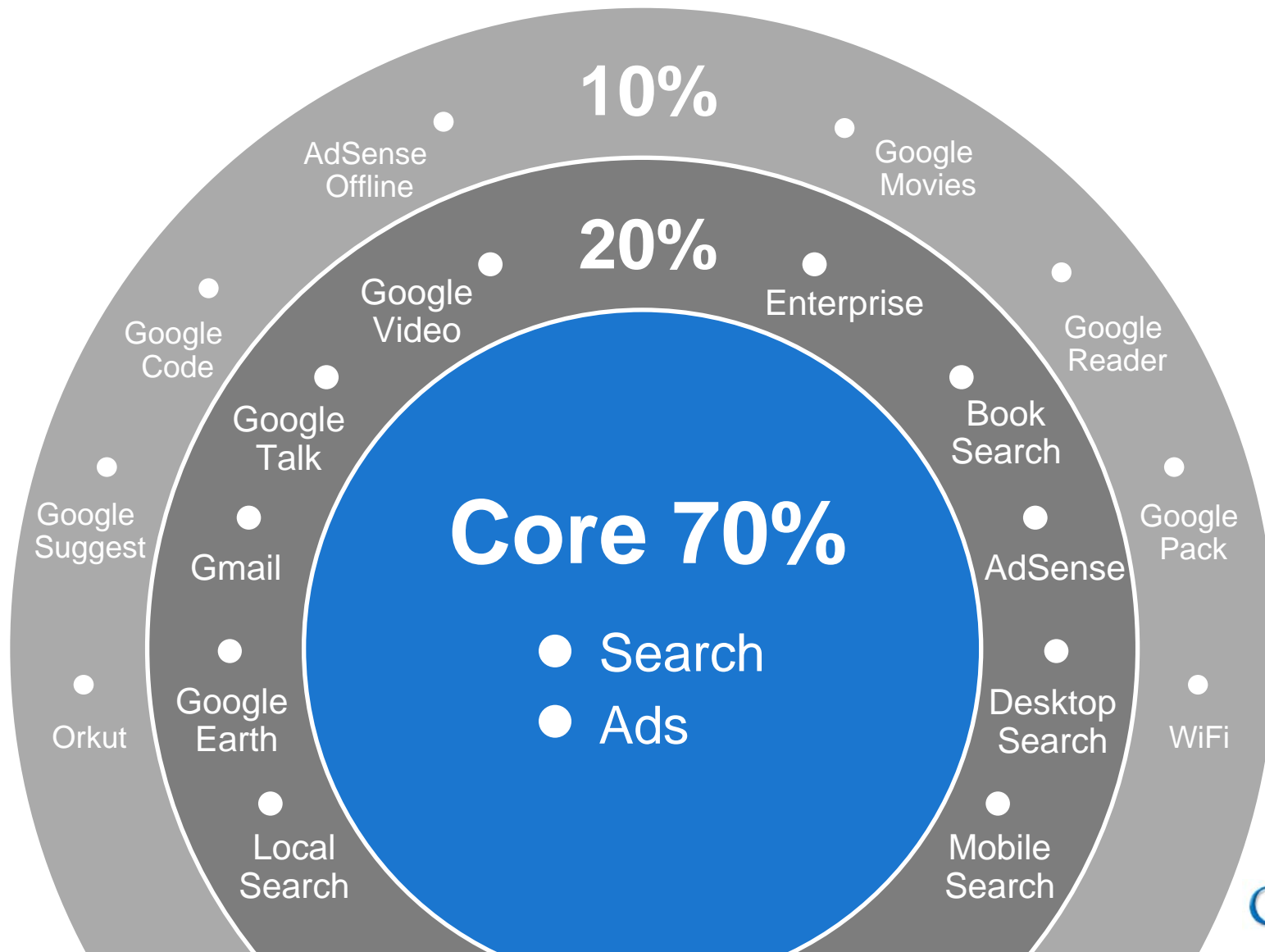
# Common Thread? Scale.

---



# 70-20-10 Product Framework

---



# Continual Focus: Core Search Examples

---



Google™

Grew index  
substantially



Consumer  
happiness



New forms  
of content

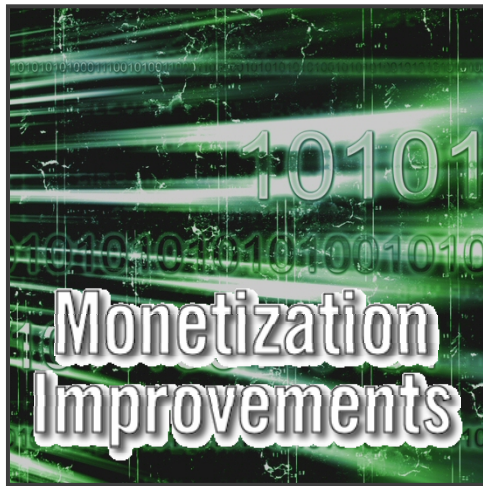


Search  
features

# Continual Focus: Ads Examples and Insights

---

$$\text{Revenue} = \text{Users} * \frac{\text{Queries}}{\text{User}} * \frac{\text{Ads}}{\text{Query}} * \frac{\text{Clicks}}{\text{Ads}} * \frac{\text{Revenue}}{\text{Click}}$$



# Ads In Google Earth

The screenshot shows the Google Earth Plus interface. The search bar contains 'tax preparation boise, id'. The left sidebar lists search results for 'tax preparation boise, id', including 'David M Charlton & Assoc', 'Pulliam & Assoc', 'Wadsworth George w CPA', 'Shirts & Motz', 'Riche Dempsey & Assoc', 'NIMS Christine CPA', 'Rhead Jill CPA', 'Smith B J CPA', 'Wilson Gerry L CPA', and 'Hecker Jerry CPA'. A 'Sponsored Link' is visible at the bottom of the results list: 'Find Boise Cpa' with the text 'Find a local CPA to meet your needs. Full details! www.accountantsworld.com'. A red arrow points from this link to a white box on the right containing the text 'Targeted Advertising'. The map shows several yellow location pins for CPAs in Boise, ID, with a pop-up window for 'Rhead Jill CPA' displaying contact information and a link to 'cabaleus.org'.

Targeted Advertising

# Ads In Local Search

**Google Local** Web Images Groups News Froogle Local Desktop Moma more »

slr cameras 94043 Search

Search the map  
Find businesses  
Get Directions

e.g., "hotels near lax" or "10 market st, san francisco"

**Local** Print Email Link to this page

Sponsored Links

- Nikon SLR Cameras**  
High Performance and Versatility  
Learn more at Nikon's website  
[www.nikondigital.com](http://www.nikondigital.com)

Search results for **slr cameras** near **Mountain View, CA 94043**

Categories: [Photo Finishing Retail](#), [Photographic Equip & Supls](#)

- A Jasper Engineering**  
1240 Pear Ave # A, Mountain View, CA  
(650) 967-1578  
[Jasper Engineering: Pano-Head](#)  
... It has been designed for use with most cameras, including Point & Shoot, SLR's, Digital and Medium Format for VR and Stitch ...  
[stereoscopy.com](http://stereoscopy.com)
- B Selantek Inc**  
505 Cypress Point Dr # 94, Mountain View, CA  
(650) 965-0787  
[Selantek - semiconductor in...](#)  
... barbeques, small appliances, toys, video games, cameras, camcorders, digital cameras, analog cameras, SLR cameras, point-and ...  
[selantek.com](http://selantek.com)
- C Ritz Camera Ctr**  
1898 W. El Camino Real, Mountain View, CA  
(650) 968-5666

**Targeted Advertising**

Map Satellite Hybrid

Shoreline Golf Links  
Golf Course At Moffett Field  
Moffett Federal Air Field  
San Antonio Shopping Center  
Alta Mesa Cemetery  
Los Altos Hills  
Los Altos  
Sunnyvale

# A Fresh Approach To Offline Ads



# Product and Technology Panel

---

- [Jonathan Rosenberg](#)
  - Product Management
- [Kai-Fu Lee](#)
  - Engineering, China
- [Alan Eustace](#)
  - Engineering
- [Marissa Mayer](#)
  - Product Management
- [Jeff Huber](#)
  - Engineering

**Google™**  
**Analyst Day 2006**

# Google Global Sales and Partnership Strategy

Omid Kordestani  
SVP, Global Sales &  
Business Development



# A Note From Our Lawyers

---

- The following presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements regarding our future financial position and business strategy, our plans and objectives for future operations, and our expectations regarding the future growth of the Internet advertising market.
- These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Many of the factors that could cause or contribute to such differences are described in the “Risk Factors” section of our most recent 10-K and 10-Q filed with the SEC, including:
  - competition that we face from web search providers, Internet advertising companies, destination web sites and traditional media companies,
  - our expectations regarding revenue growth rates and operating margins, and
  - our ability to successfully innovate and provide new products and services to our users, advertisers and Google Network members.
- In light of these risks and uncertainties, the forward-looking statements included in this presentation may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

# Our Focus

---

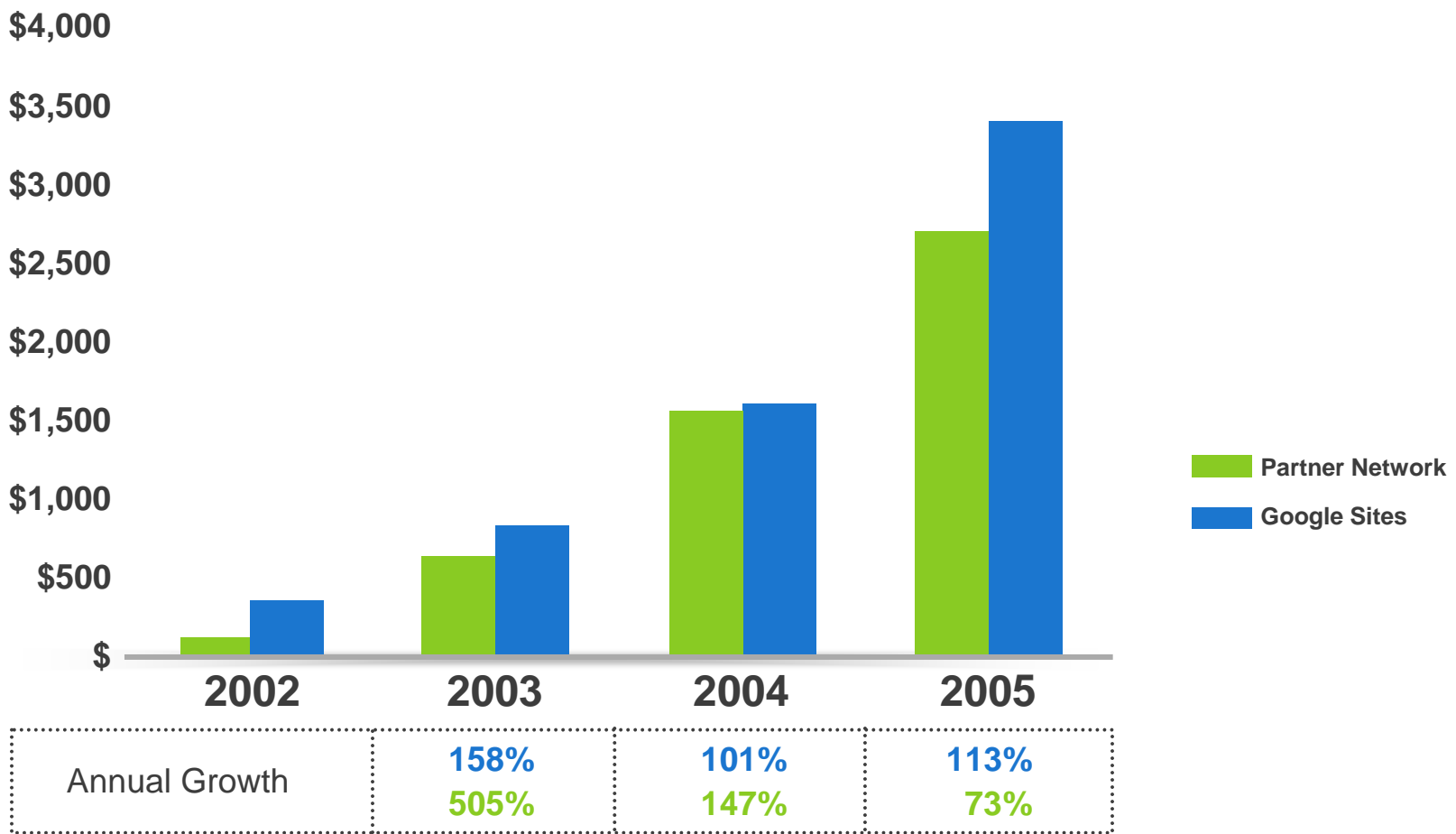
Users

Customers

Partners

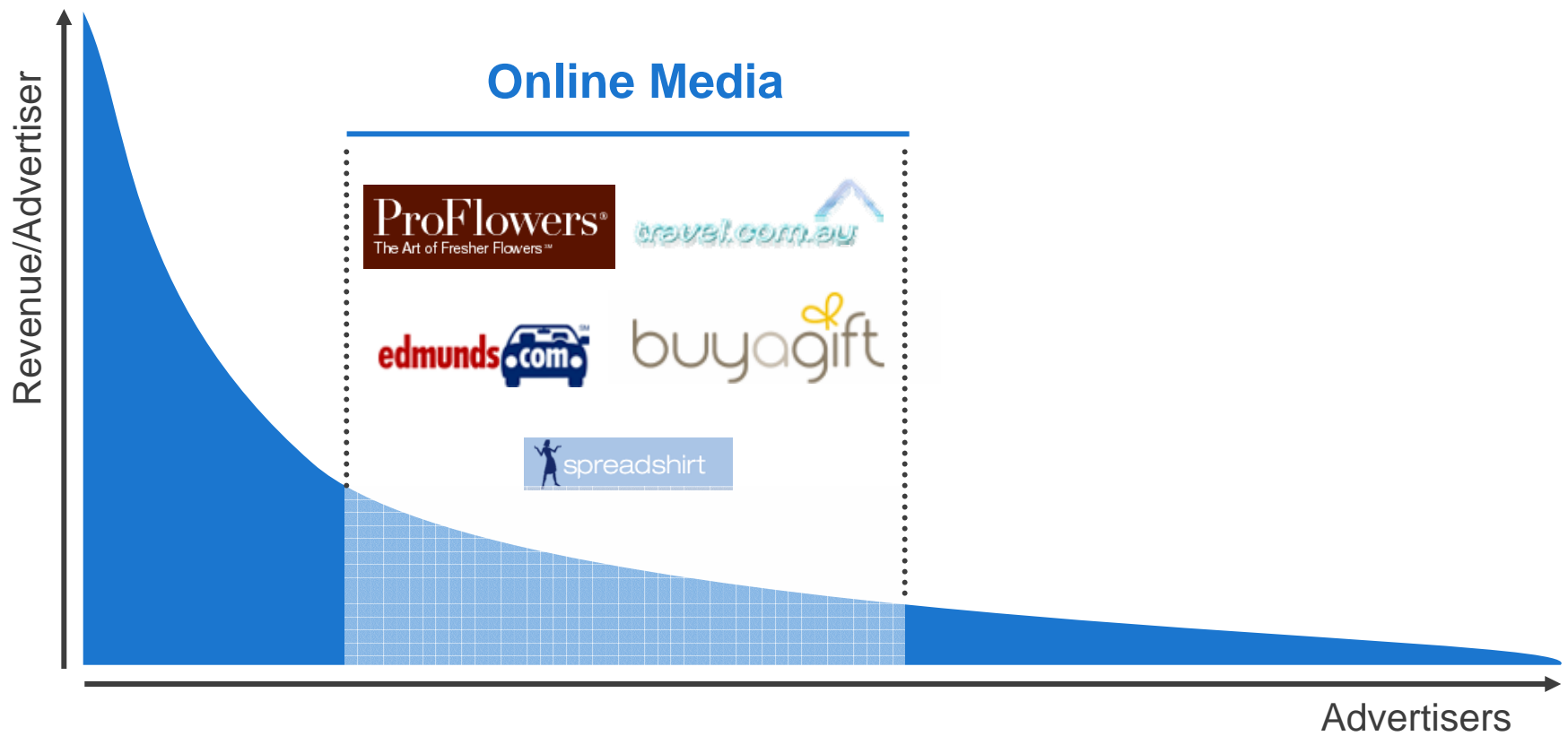
# Ad Sales by Property

Ad Revenue (\$ millions)



# AdWords

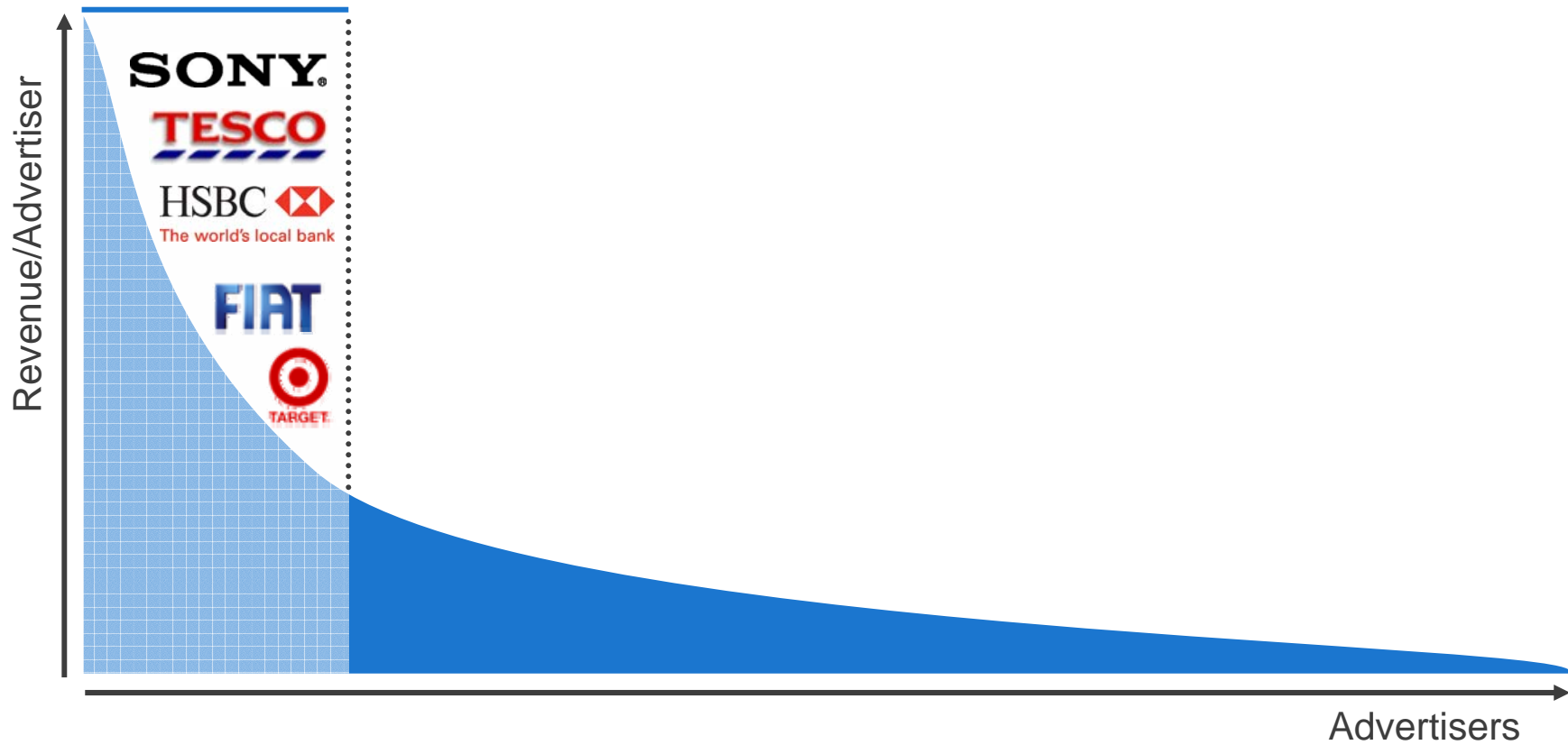
Serving all of our customers



# AdWords

Serving all of our customers

**Traditional  
Marketers**



# AdWords

Serving all of our customers



# Traditional Marketers



## Top Online Spend Growth Fortune 1000 2003 to 2005

Capital One Financial	2,113%
General Mills	1,465%
Allergan	1,209%
McDonalds	1,105%
Continental Airlines	802%
Starwood Hotels & Resorts	616%
Wachovia	585%
Eli Lilly	549%
Delta Airlines	482%
Clorox	480%
Verizon	342%
Cablevision Systems	314%
CVS	255%
Bellsouth	198%
Intel	198%
Knight-Ridder	196%
UPS	188%
Ford Motor	180%
Proctor & Gamble	150%
General Motors	146%
Staples	129%
Walt Disney	103%

Industry growth in online spend is real and significant

- Average '03 online spend: **\$8.5MM**
- Average '05 online spend: **\$28.4MM**

F1000 growth in online spend occurred in diverse range of verticals, including:

Financial	Travel
	
+2,113%	616%

Source: TNS-MI; 2005 and 2003 US online display advertising, excludes companies with online spend less than \$400K in 2003

“Nearly half of the chief marketing officers at Fortune 500 companies said they plan to increase their online advertising budgets by 30% this year.”

---

AdAge, January 6, 2006

# Traditional Marketers

---

Vertical sales strategy

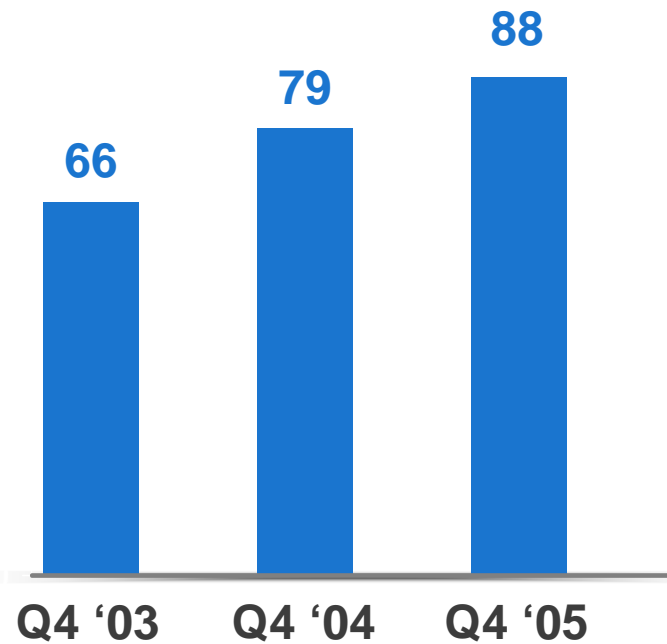


# Traditional Marketers

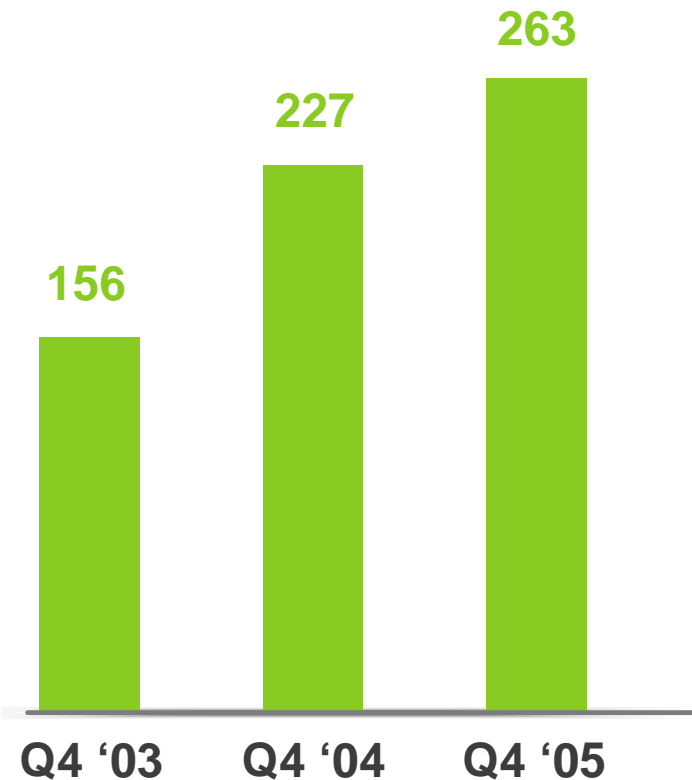
---

## Growth

Google Advertisers in AdAge 100



Google Advertisers in Fortune 1000



Source: Advertising Age 100 leading national advertisers, June 27, 2005. Measured Media from TNS Media Intelligence/CMR's Strategy and Yellow Pages Integrated Media Association. Fortune magazine list of America's largest (revenue) 1000 companies. April 18, 2005 issue.



# Traditional Marketers

## Extending Relationships

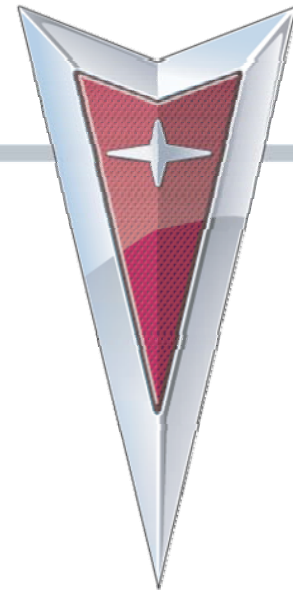
												Q1 2005		2004							
				Men's																	Sketchers
				Fashion Jewelry																	Booby Jack
Bridal Shop				Sterling Silver																	Okie Dokie
Sleepwear	Fleece-Sweaters	Sports Apparel		Gold																	Arizona Jean Co.
Juniors	Sports Fan Shop	Sleepwear		Bridal																	Chris Madden
Shirts & Blouses	Sports Apparel	Baby Needs		Bracelets																	Collin Cowie
Swimwear	Underwear-socks	Shoes	Juniors	Necklaces																	MTC Cribs
Dresses & Suits	Business Attire	Boys Bottoms	Men's boots	Earrings																	Nicole Miller
Fragrance-spa	Big & Tall	Boys Tops 4-20	Men's comfort	Rings																	St. John's Bay
Jackets & Coats	Sleepwear-Robes	Girls Bottoms	Men's dress	Jewelry boxes	20-something																Delicates
Jeans	Shoes	Girls Tops 4-16	Women's comfort	Diamonds	Campus Shop																Levi's
Knit Tops	Outerwear	Socks-Underwear	Women's dress	Personalized	Kids	Decks & Doors															Dockers
Lingerie	Young Men's	Toddler	Women's sport	Pearls	Furniture	Hardware															Carters
Maternity	Workwear	Infant	Young Men's	Moissanite	Sheets	Top Treatments															MUDD
Pants & Skirts	Pants	Newborn	Boy's	Cubic Zirconia	Teens	Made to order															Olga
Shoes	Jeans	School Uniforms	Girl's	Gemstones	Bath	Kids & Teens															Bali
Accessories	Dress Shirts	Dress Up	Men athletic	Men's Watches	Basic Bedding	Blinds & Shades															Stafford
Activewear	Casual Shirts	Baby Furniture	Men's casual	Women's Watches	Bedding	Curtains & Drapes															Worthington
Capris & Shorts	Accessories	Baby Bedding	Women's casual	Bed & Bath	Window	Home Furnishings															
Women's	Men's	Children's	Shoes	Jewelry	Bed & Bath	Window	Home Furnishings	Housewares	Toys	Gifts & Registry	Brands										

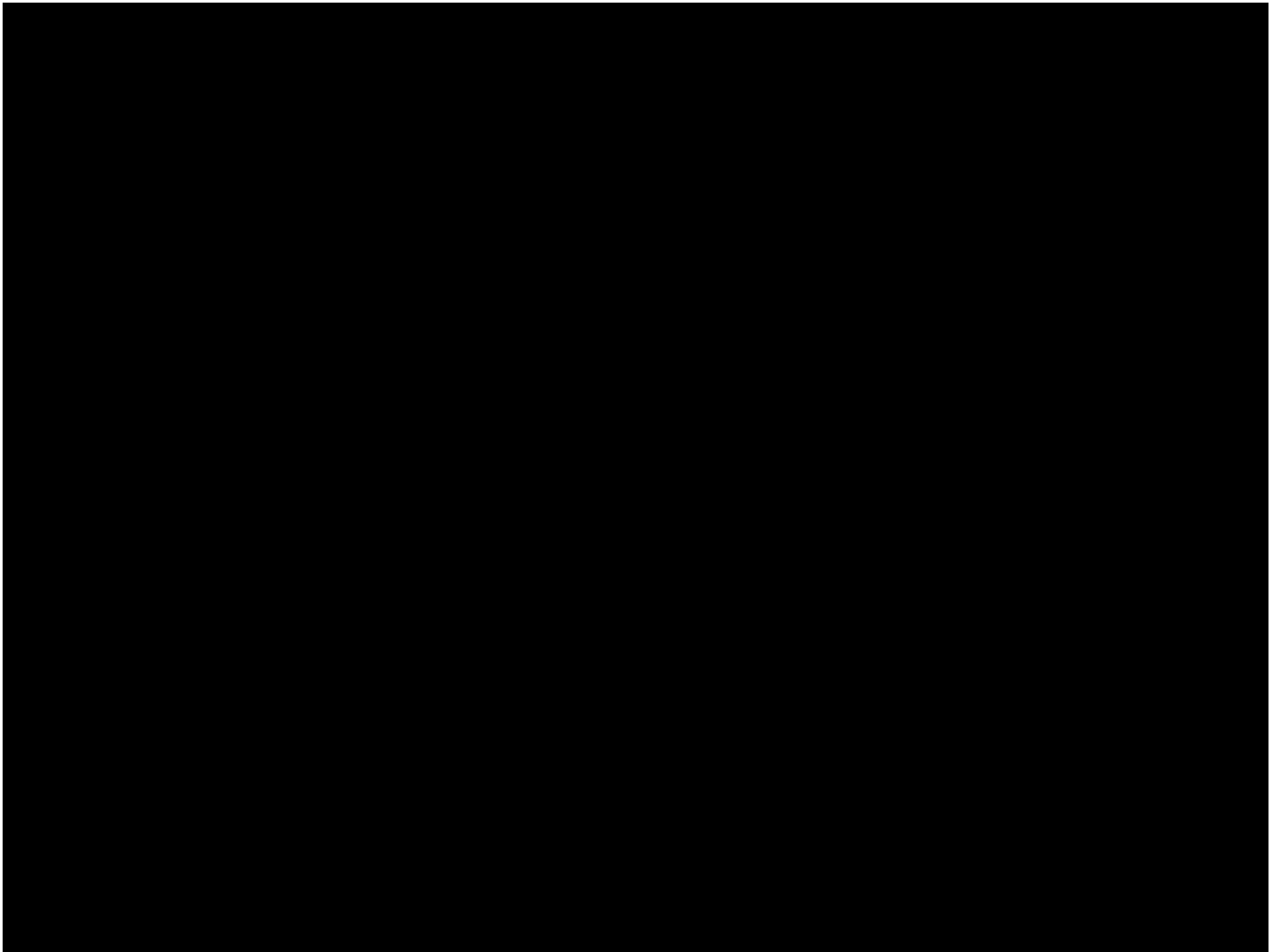


# Traditional Marketers

---

**PONTIAC**

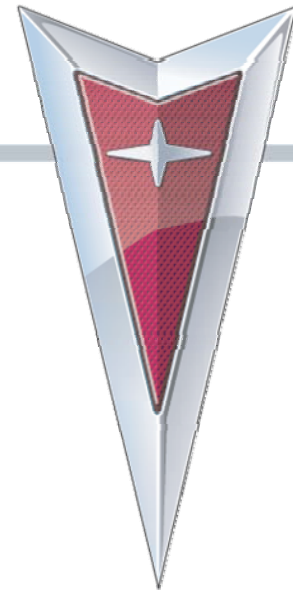




# Traditional Marketers

---

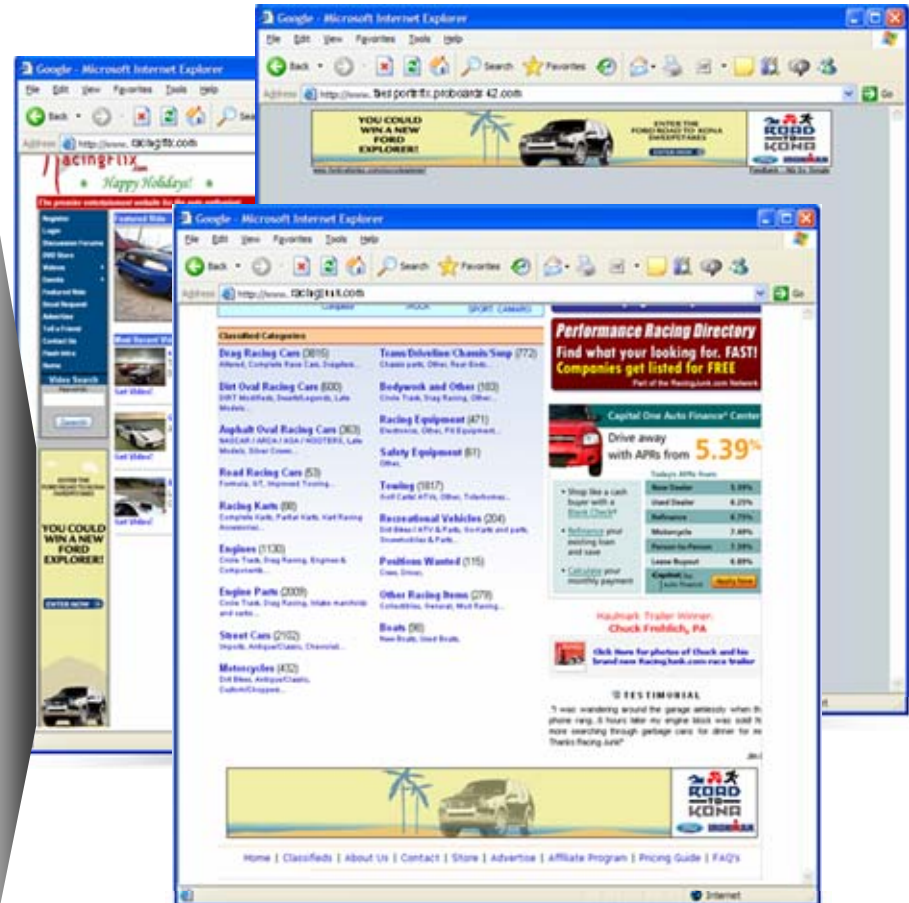
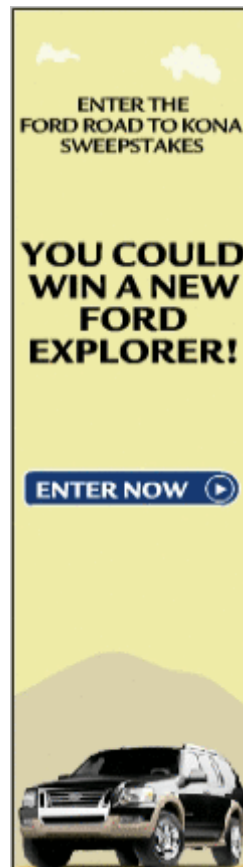
**PONTIAC**



# Traditional Marketers

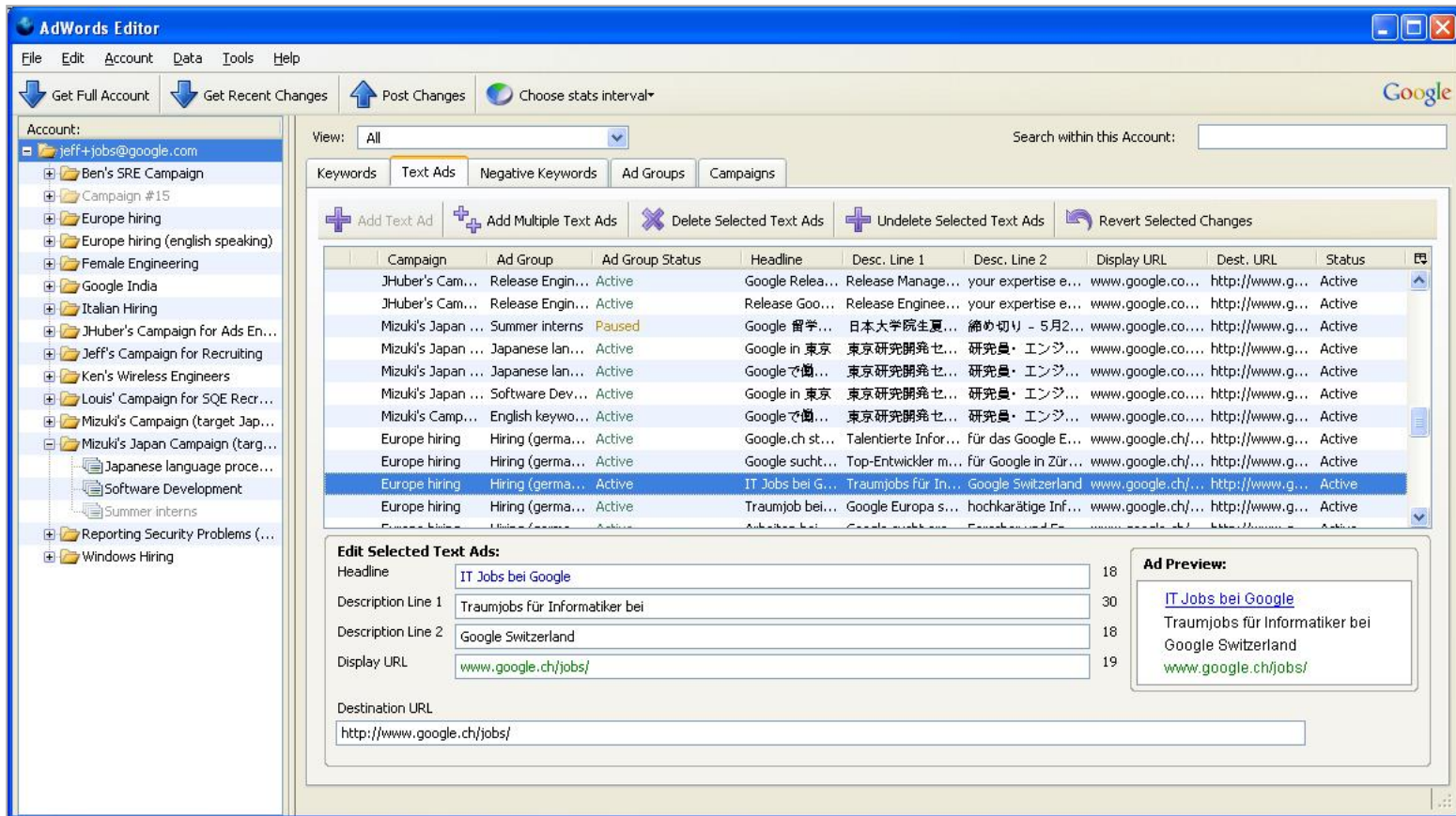
## Ford & Site Targeting

- **Goal:** Drive traffic to their road to Kona campaign microsite
- **Campaign:** Prominent homepage placement on 1000s of niche and premium sites
- **Results:** Campaign reached millions of unique users in a short 60 hour period



# Tailored Solutions: Sophisticated Advertisers

## AdWords Editor



# Tailored Solutions: Sophisticated Advertisers

The screenshot displays the AdWords Editor interface. On the left, a tree view shows the account structure under 'jeff@jobs.google.com', including campaigns like 'Ben's SRE Campaign', 'Europe hiring', and 'Windows Hiring'. The main area shows a table of campaigns with columns for Campaign, Ad Group, Ad Group Status, Headline, Desc. Line 1, Desc. Line 2, Display URL, Dest. URL, and Status. Below the table, the 'Edit Selected Text Ads' panel is active, showing fields for Headline, Description Line 1, Description Line 2, Display URL, and Destination URL. An 'Ad Preview' window shows the resulting ad text: 'IT Jobs bei Google', 'Traumjobs für Informatiker bei Google Switzerland', and 'www.google.ch/jobs/'.

AdWords API

Separate search and content bidding

Google Analytics

Site Targeting

# Tailored Solutions

## SMBs

Google AdWords interface showing campaign details for 'My Ad Campaign' (Starter Edition). The campaign is currently active with a budget of \$30.00/month. The Ad Health Meter shows the ad is showing as it should. The keywords table is as follows:

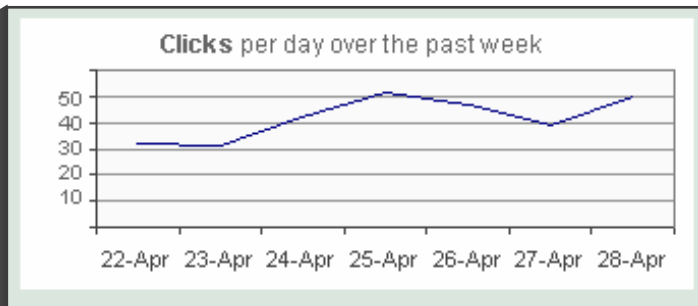
Keywords [?]	Impressions [?]	Clicks [?]	Total Cost [?]
Search terms that trigger your ads	Times your ad has shown	Visits to your website	Charges in this period
alien clothing <a href="#">Delete</a>	1000	10	\$10.00
alien tshirts <a href="#">Delete</a>	800	8	\$8.00
alien boxers <a href="#">Delete</a>	500	5	\$5.00
<b>Your overall performance* [?]</b>	<b>2300</b>	<b>23</b>	<b>\$ 23.00</b>

\*Overall totals will exceed the sum of your keywords if your ad earned extra clicks from relevant sites in Google's content network. These clicks are credited to the whole account, not to individual keywords. [?] Reporting is not real-time. Clicks received in the last 3 hours may not be included here.

## Simple Bidding

Budget: [?] \$ 30.00 per month  
 This is the most your account will be charged each month. The higher your budget, the more often your ad will show.

## Straightforward Reporting



## Intuitive Targeting

Location: [?] Your ad will appear to people located here. If your customers aren't located in United States, [choose another location.](#)

- United States and Canada
- United States
- California
- San Francisco Bay Area [?]
- Within driving distance of Los Gatos, CA

Enter a zip code to see local areas:

# New Opportunities

---

Print



Radio



Mobile



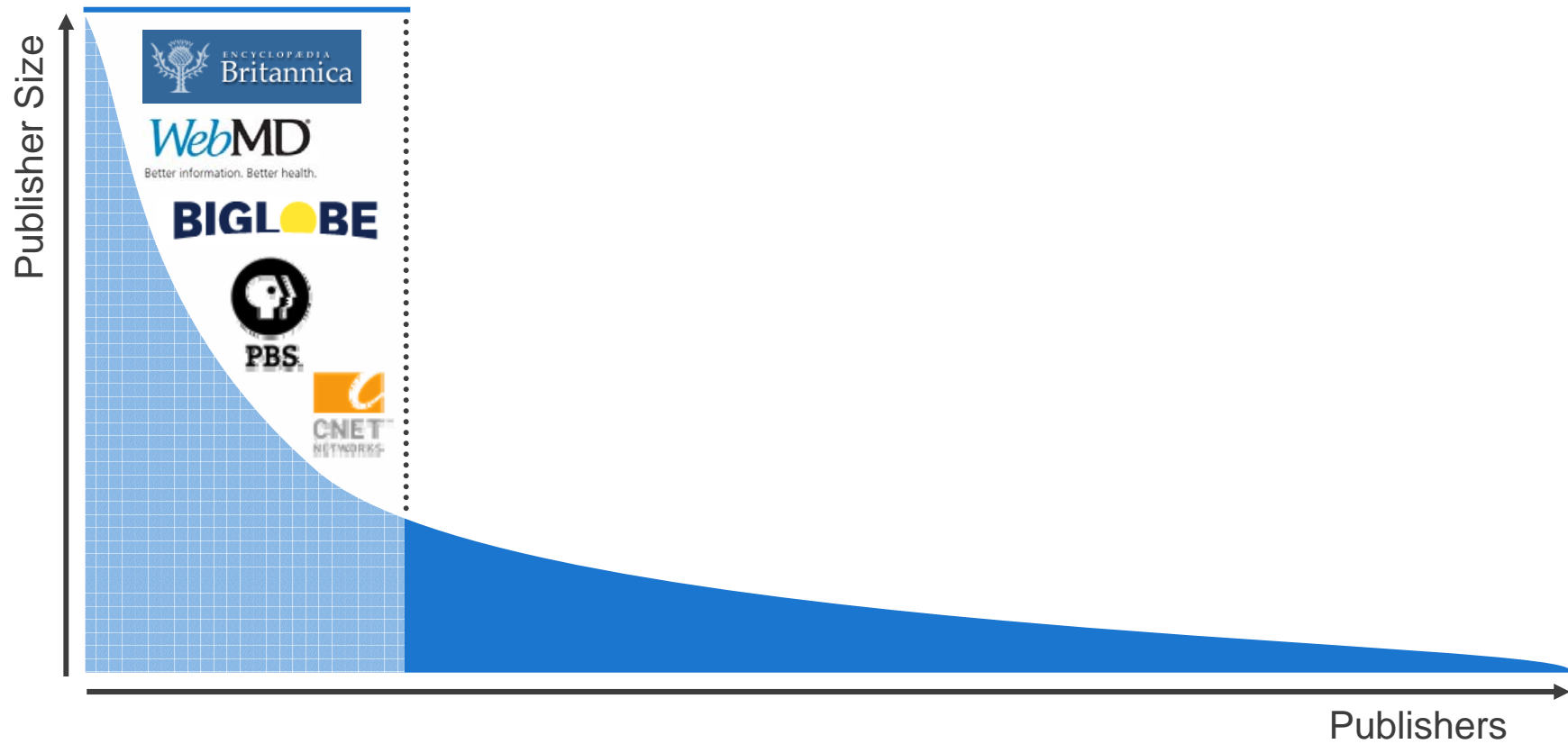
Video



# AdSense

Serving partners of all sizes

## Large Partners



# AdSense

Serving partners of all sizes



# AdSense

---

## The Strength of the Content Network

### The Network is Large...

- Reaches 69% of Global internet users
- 128 Exposures per unique viewer each month

### ...and Growing

- New Partner Growth
  - The Network is a sales platform
  - Integration with blogging / publishing platforms
- Existing Partner Growth
  - Optimization of current partners



Unduplicated reach and frequency of AdSense for Content network, custom comScore data analysis, Nov 2005

# AdSense

## The Power of the “Tail”

- Coverage for advertisers beyond search targeting
  - AdSense network covers nearly every topic imaginable
  - Matches highly targeted advertising with niche content
- Broad reach for branding advertisers
  - Site Targeting allows advertisers to reach their target audience
  - Aggregates the long tail

## 3.9 Million Daily Page Views on Hip Hop Related Sites



# Enterprise

- Gaining sales traction
  - 100+ percent sales growth (vs 2004)
  - More than 3,000 active customers
  - First year in Europe & Japan
- New products
  - Google Mini (for SMB)
  - Google Desktop for Enterprise
- Building partnerships
  - Program launched in September
  - 40+ partners signed & trained
  - BearingPoint launched search practice based on Google

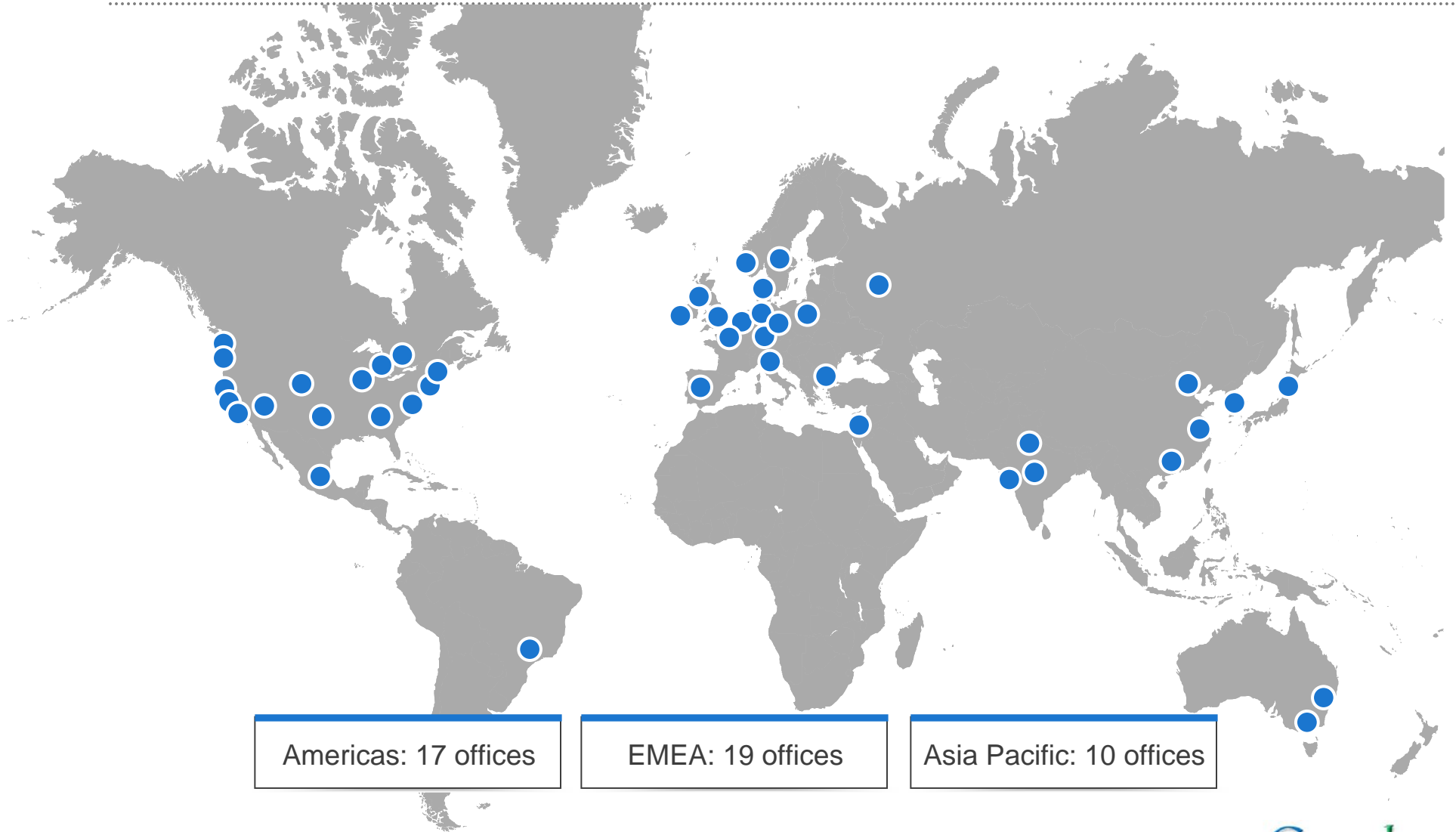


## Select Customer Installations



# Global Sales: Sales Offices

---



# Global Sales: Online Sales

## 42 Language Interfaces

 Chinese (Simplified)	 Czech
 Chinese (Traditional)	 Estonian
 Danish	 Greek
 Dutch	 Hebrew
 English (US)	 Hindi
 English (UK)	 Hungarian
 Finnish	 Icelandic
 French	 Indonesian
 German	 Latvian
 Italian	 Lithuanian
 Japanese	 Polish
 Korean	 Romanian
 Norwegian	 Russian
 Portuguese	 Serbian
 Spanish	 Slovak
 Swedish	 Slovenian
 Arabic	 Tagalog
 Bulgarian	 Turkish
 Catalan	 Ukrainian
 Croatian	 Urdu
 Thai	 Vietnamese

## 48 Currencies Accepted

 Argentine Peso	 Malaysian Ringitt	 Turkish New Lira
 Australian Dollar	 Mexican Peso	 US Dollar
 Bolivian Boliviano	 Moroccan Dirham	 U.A.E. Dirham
 Brazilian Real	 New Taiwan Dollar	 Venezuela Bolivar
 British Pounds Sterling	 New Zealand Dollar	 Chinese Yuan Renminbi
 Bulgarian Lev	 Norway Kroner	 Croatian Kuna
 Canadian Dollar	 Pakistan Rupee	
 Chilean Peso	 Peruvian Nuevo Sol	
 Colombian Peso	 Philippine Peso	
 Czech Koruna	 Polish Zlotych	
 Denmark Kroner	 Romanian Leu	
 Egyptian Pound	 Russian Rubles	
 Estonian Kroon	 Saudi Riyal	
 Euro	 Singapore Dollar	
 Hong Kong Dollar	 Slovak Koruna	
 Hungarian Forint	 Slovenian Tolar	
 Indian Rupee	 South African Rand	
 Indonesian Rupiah	 South Korean Won	
 Israeli New Shekel	 Sweden Kronor	
 Japanese Yen	 Swiss Franc	
 Lithuanian Litas	 Thai Baht	

# Sales and Partnership Panel

---

- [Omid Kordestani](#)
  - Senior Vice President Global Sales and Business Development
- [Nikesh Arora](#),
  - Vice President, European Operations
- [Sukhinder Singh Cassidy](#)
  - Vice President, Asia Pacific and Latin America Operations
- [David Fischer](#)
  - Director, Online Sales and Operations
- [Joan Braddi](#)
  - Vice President, Search Services
- [David Eun](#)
  - Vice President, Content Partnerships

**Google™**  
**Analyst Day 2006**

# Analyst Day 2006

George Reyes  
Chief Financial Officer



# A Note from our Lawyers

---

- The following presentation includes forward-looking statements. These forward-looking statements include statements regarding the seasonality of our business, our expected levels of capital expenditures, the growth of our international operations, headcount and operating expenditures, expected stock dilution, and the sources of our future growth.
- These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Many of the factors that could cause or contribute to such differences are described in the "Risk Factors" section of our most recent 10-K and 10-Q filed with the SEC.
- In addition, we are discussing three non-GAAP financial measures - non-GAAP operating income, non-GAAP operating expenses and free cash flow - in the attached presentation. This financial information is not intended to be considered in isolation or as a substitute for financial information prepared and presented in accordance with GAAP. For more information on these non-GAAP financial measures, please see the document entitled "CFO Presentation – Non-GAAP Financials" which has been made available on the "Investor Relations" section of our corporate web site next to the link to the webcast of this presentation. The tables provided in this document have more details on the GAAP financial measures that are most directly comparable to these non-GAAP financial measures and the related reconciliations between these financial measures.

# Agenda

---

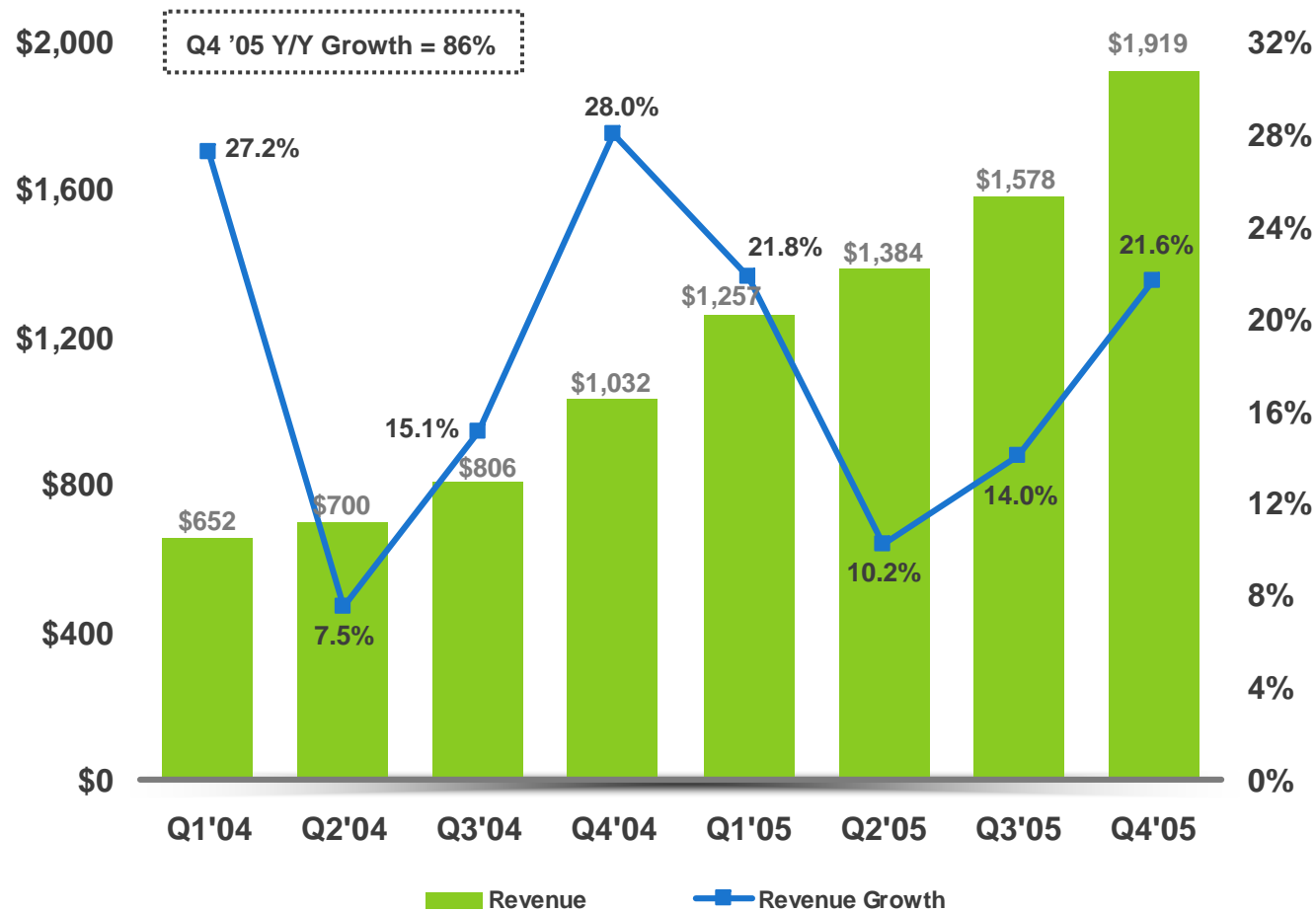
2005 Financial Highlights

Top Financial Questions

2006 Priorities

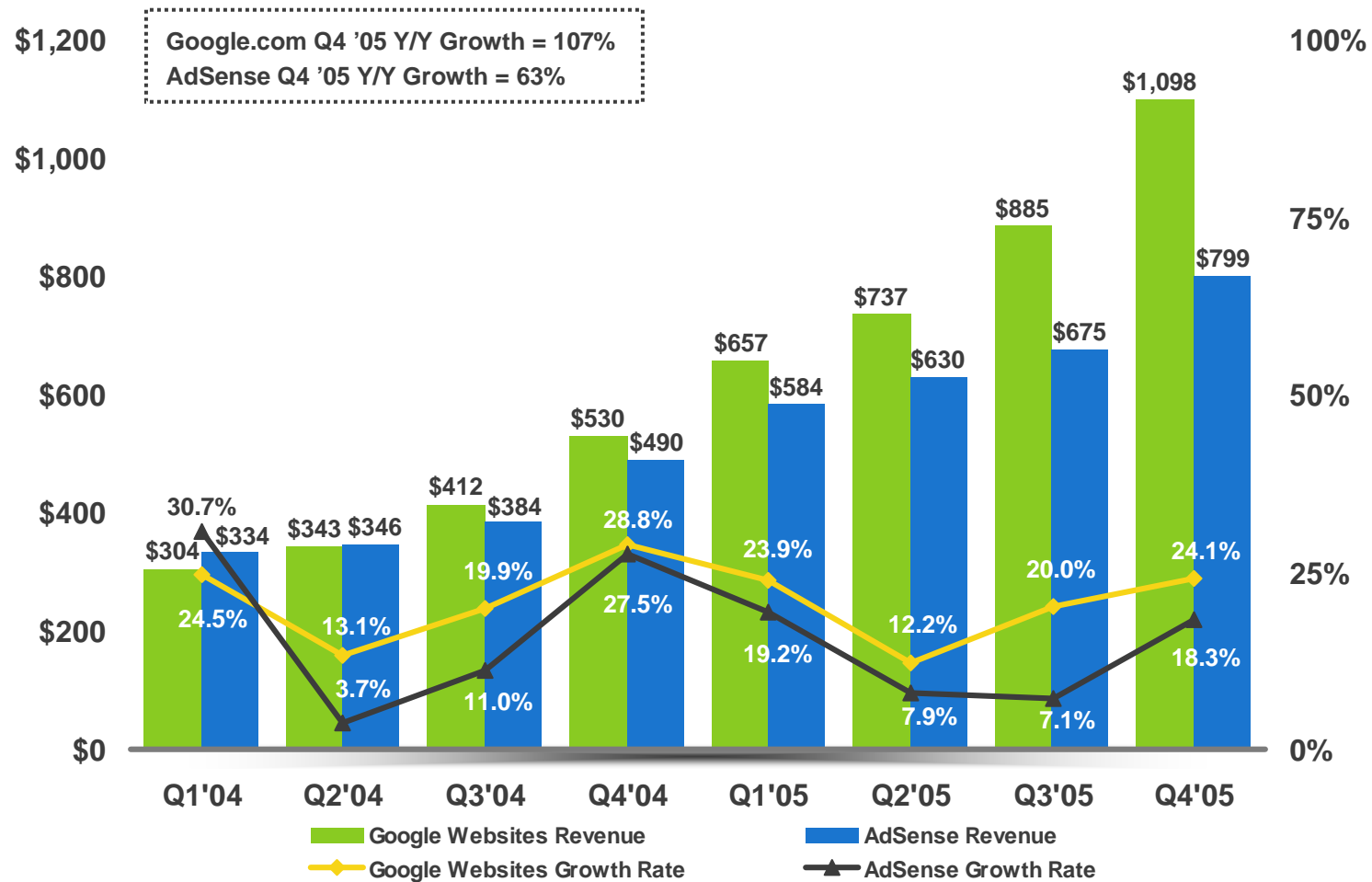
# Strong Revenue Growth

(In millions)



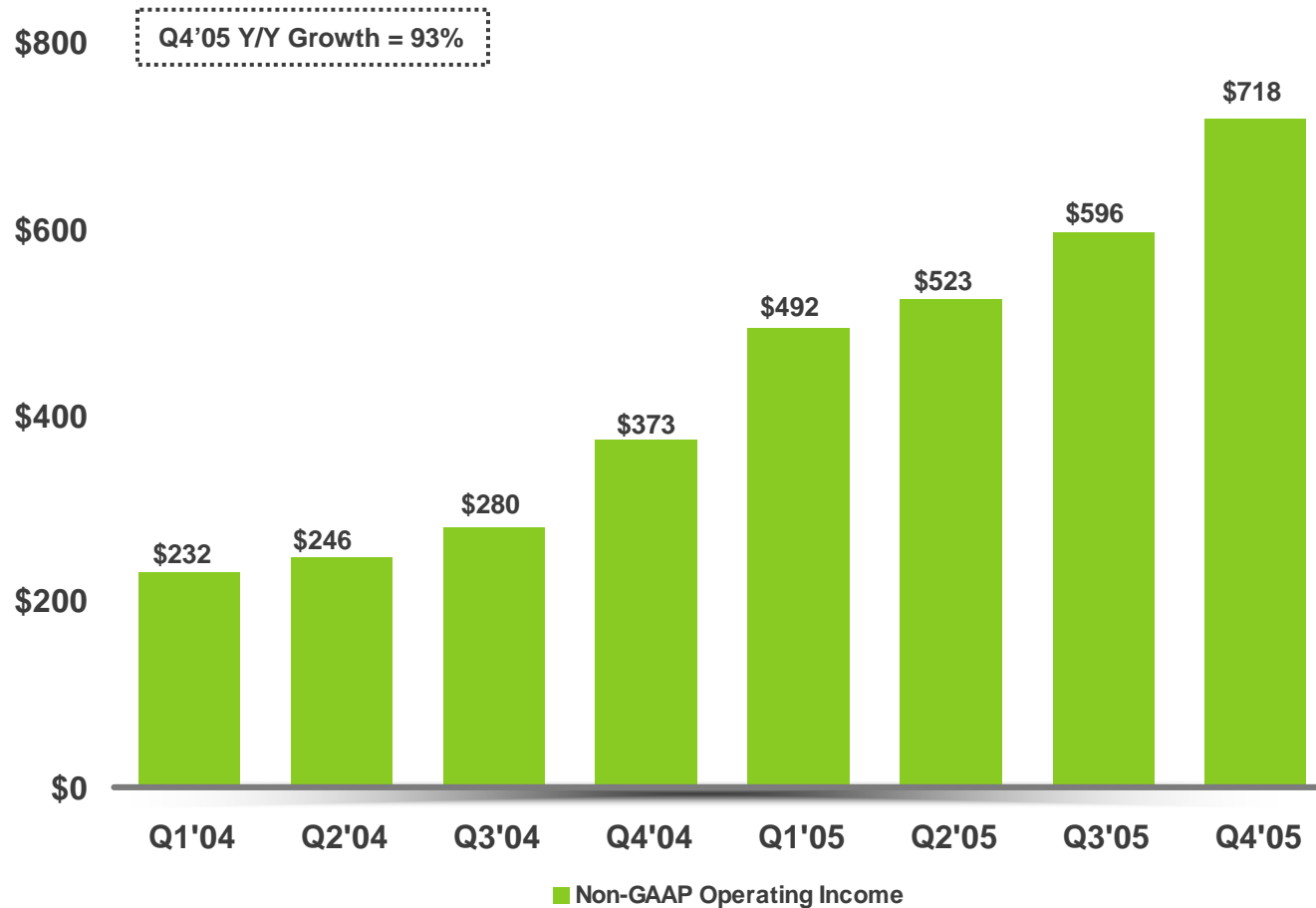
# Google.com and Network Growth

(In millions)



# Rising Non-GAAP Operating Income

(In millions)

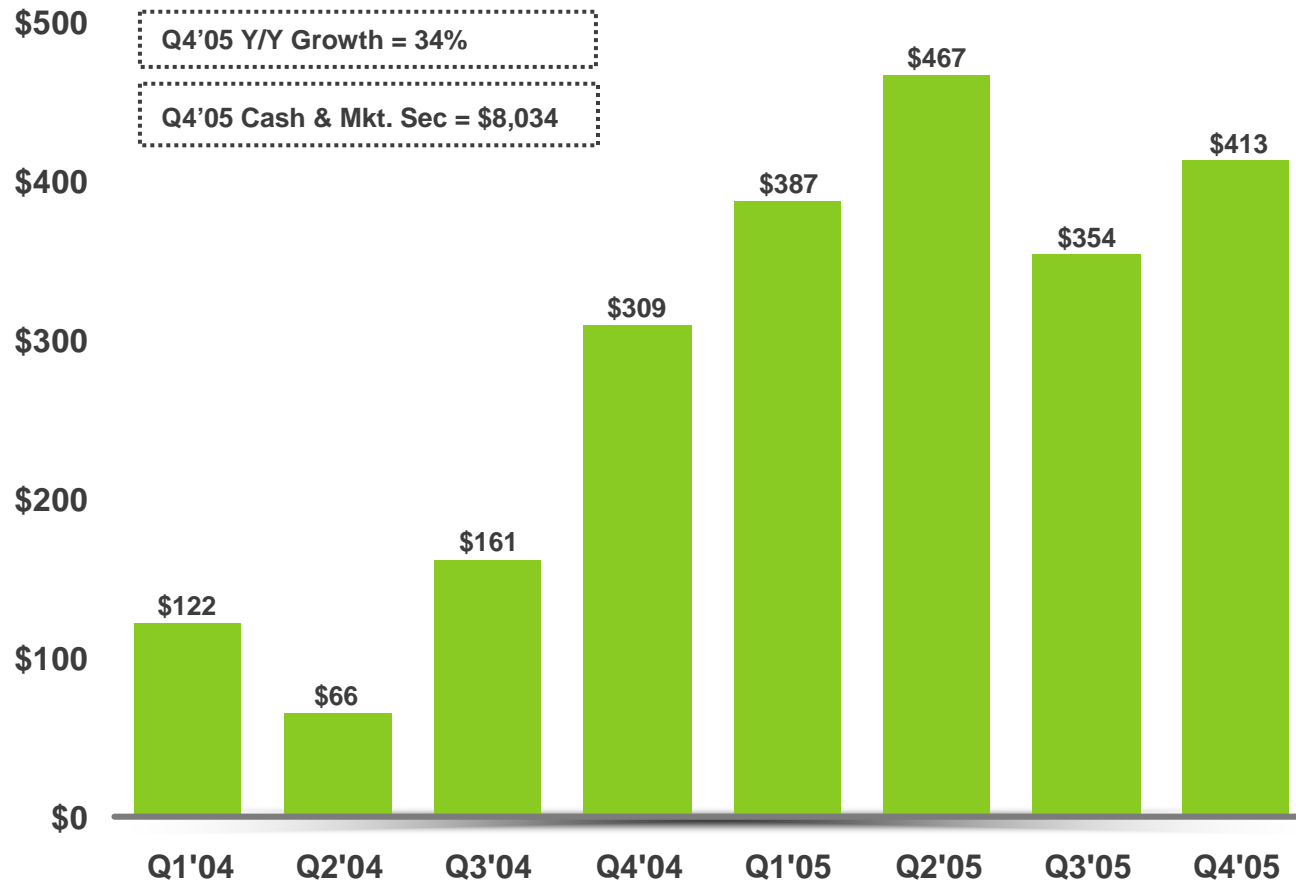


Note: Data adjusted for non-cash stock-based compensation charges and other items such as Yahoo! Settlement (\$201 mm in Q3'04), Google Foundation donation (\$90 mm in Q4'05) and IPR&D (\$10.4 mm in Q4'04 and \$20.8 mm in Q3'05).

# Strong Free Cash Flow Generation

---

(In millions)



Note: Free Cash Flow equals Cash Flow from Operations less Capital Expenditures.

# Top Financial Questions

---

How do you measure performance?

How do you monitor financial performance?

What are the drivers of capital expenditures?

Is international growth slowing?

How should we think about operating expenses?

Are you experiencing pressure on traffic acquisition costs?

How do you evaluate strategic distribution and acquisition opportunities?

# How Do You Measure Performance?

---

## Operational Metrics

- Search quality
- Customer satisfaction
- Traffic growth
- Revenue per thousand searches  
= Coverage \* Click-through rate \*  
CPC \* 1,000
- Number of advertisers  
and publishers

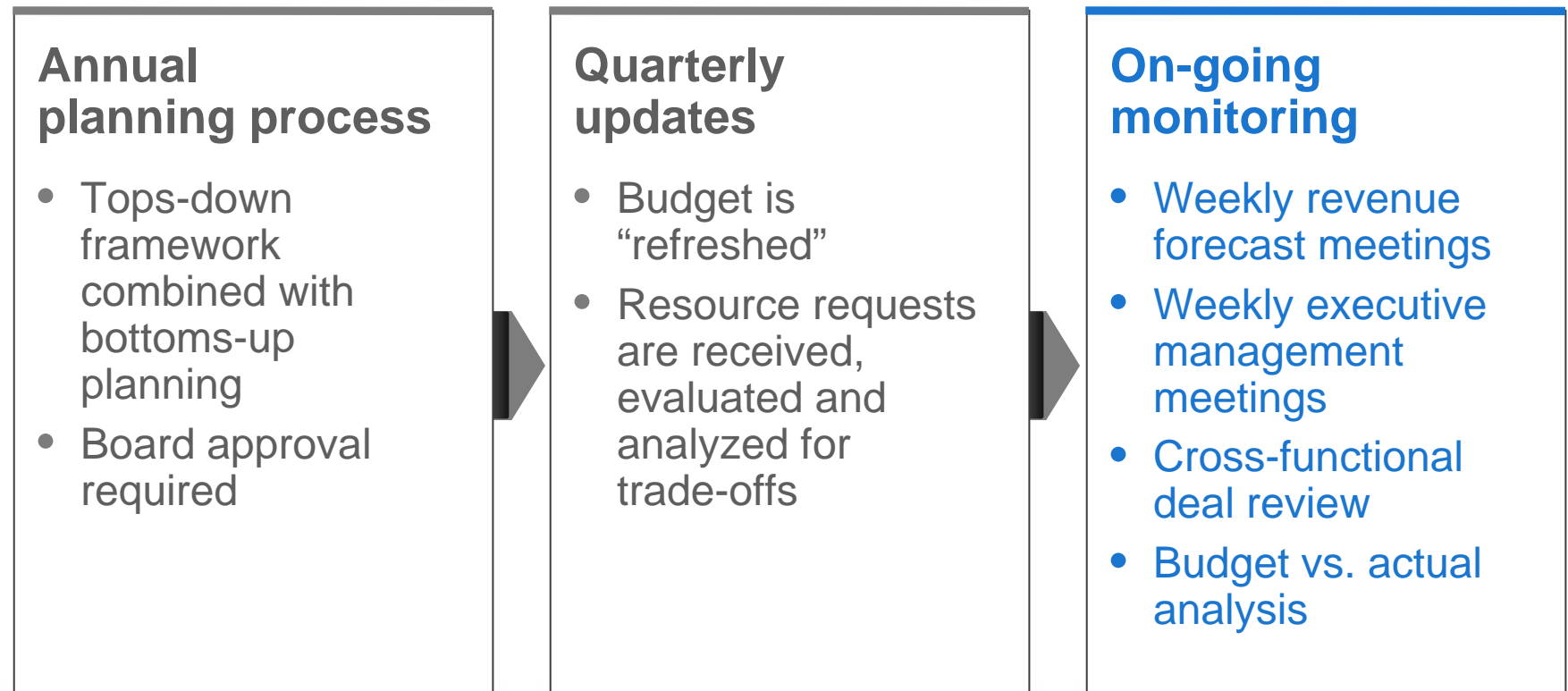
## Financial Metrics

- Revenue growth
- Operating margin
- Productivity per employee

# How Do You Monitor Financial Performance?

---

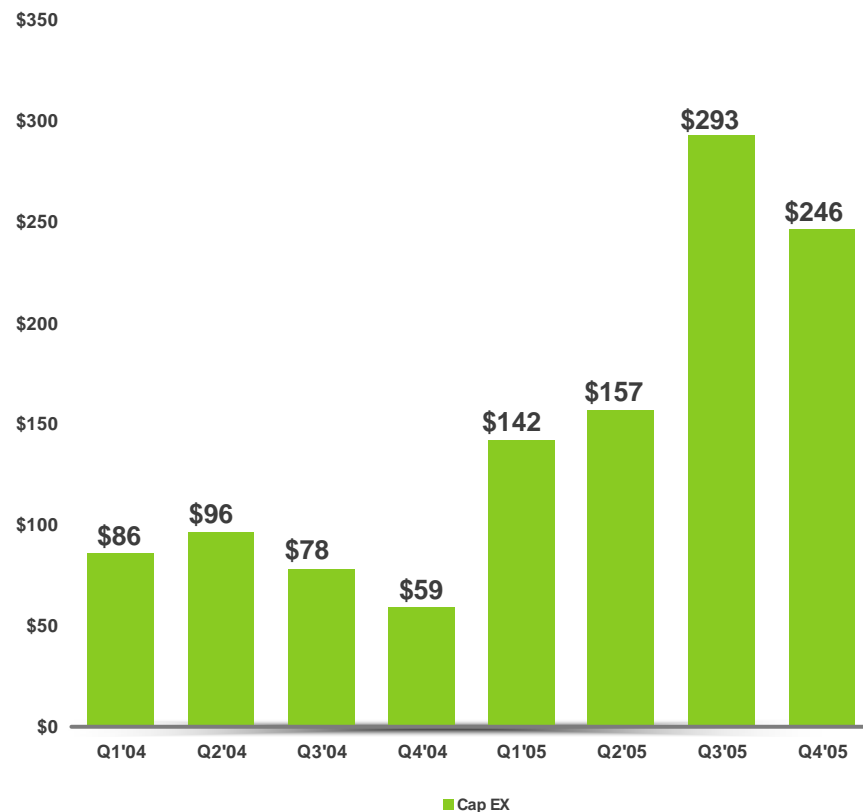
## Key financial processes



# What Are the Drivers of Capital Expenditures?

---

## Capital expenditures (In millions)



### Capital expenditures drivers

- Core search and advertising businesses
  - Immediate benefits
  - Driven by traffic growth
- New services
  - Longer-term benefits
  - Continuous cost/benefit analysis; reevaluation of added investment

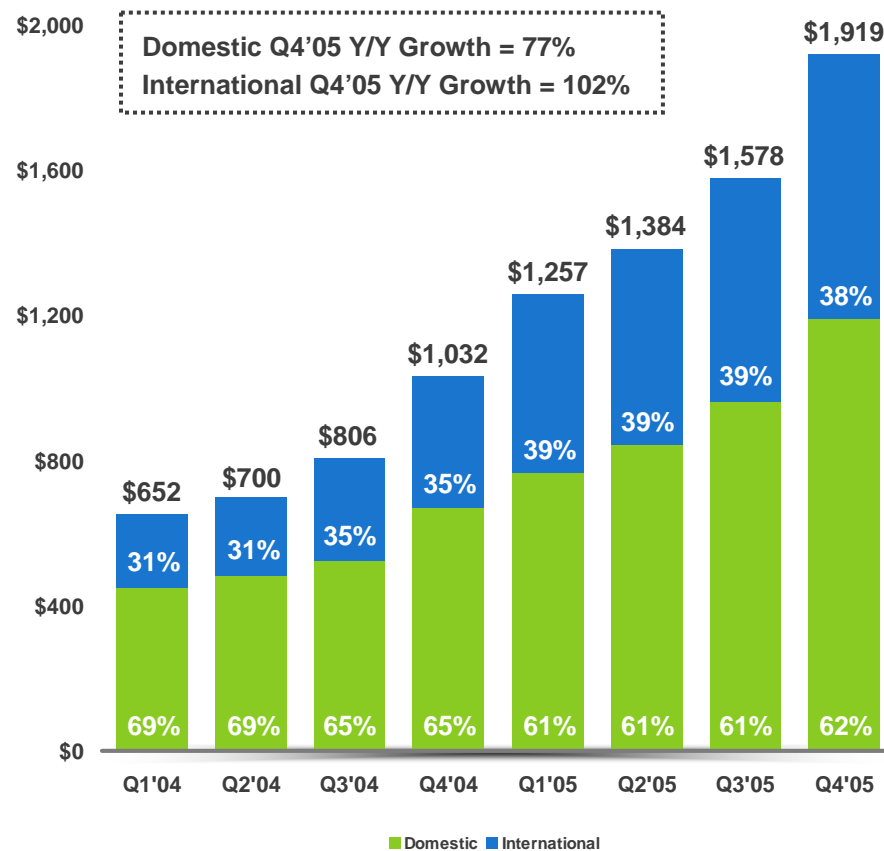
### 2006 Capital expenditures

- 2006 capital expenditures will significantly exceed 2005 levels
- Machine components, networking equipment & data centers (majority)
- Real estate

# Is International Growth Slowing?

## Geographical revenue contribution

(In millions)



- International growth dynamics

- International growth remains strong
- European Q4'05 Q/Q growth exceeded Q/Q growth in Q4'04 when excluding the impact of FX and the addition of AOL Europe in Q4'04
- F/X headwinds decreased international revenues by 2.1% in 2005

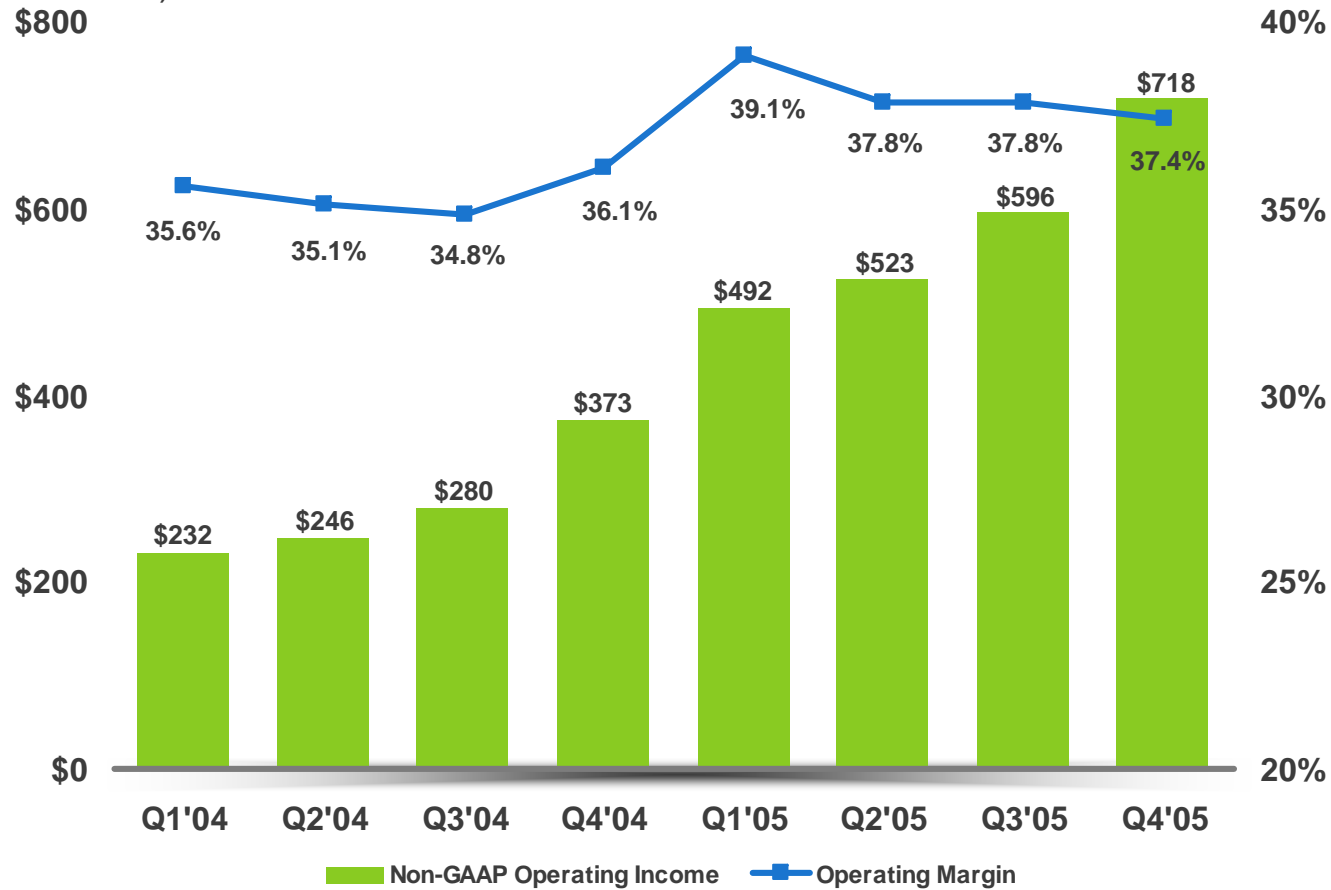
- Strongest international regions (outside UK)

- Western Europe
  - Including Germany, France, Netherlands, Spain, Italy
- Japan
- Canada
- Australia

# How Should We Think About Operating Expenses?

## Non-GAAP operating margins

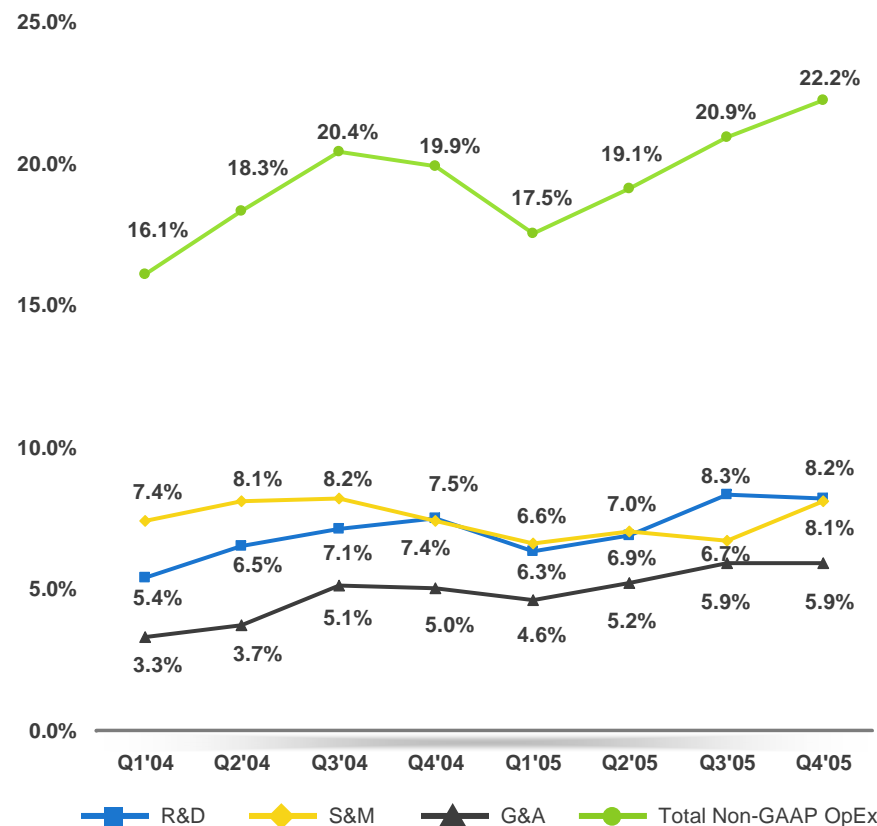
(In millions)



Note: Data adjusted for non-cash stock-based compensation charges and other items such as Yahoo! Settlement (\$201 mm in Q3'04), Google Foundation donation (\$90 mm in Q4'05) and IPR&D (\$10.4 mm in Q4 '04 and \$20.8 mm in Q3'05).

# How Should We Think About Operating Expenses?

## Non-GAAP operating expenses as a % of revenue



### Operating Expense Drivers

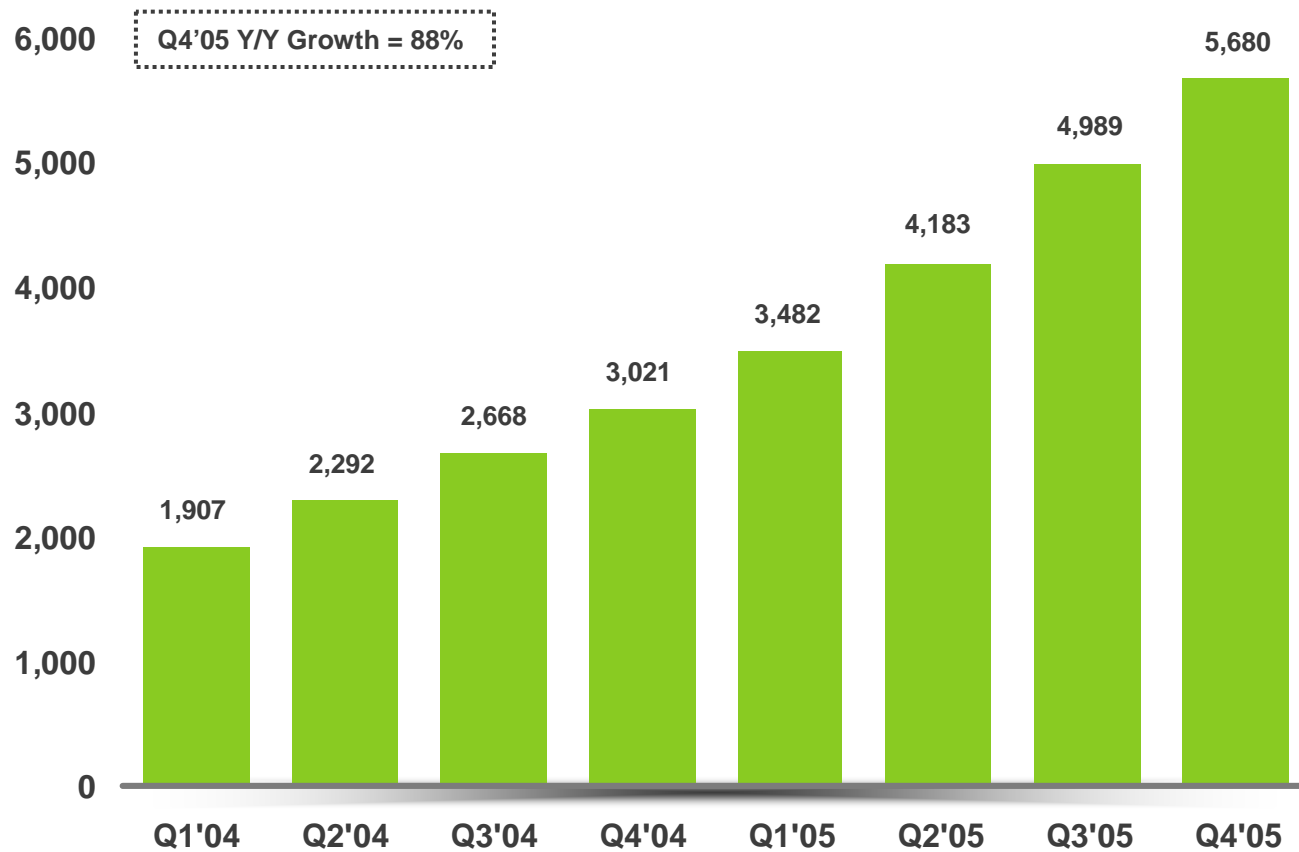
- R&D
  - Engineering talent, infrastructure
- S&M
  - Headcount, office locations, toolbar distribution
- G&A
  - Headcount to scale with rest of business
- Well-planned strategic decisions
  - Opportunities are compelling

Note: Data adjusted for non-cash stock-based compensation charges and other items such as Yahoo! Settlement (\$201 mm in Q3'04), Google Foundation donation (\$90 mm in Q4'05) and IPR&D (\$10.4 mm in Q4'04 and \$20.8 mm in Q3'05).

# How Should We Think About Operating Expenses?

---

## Headcount

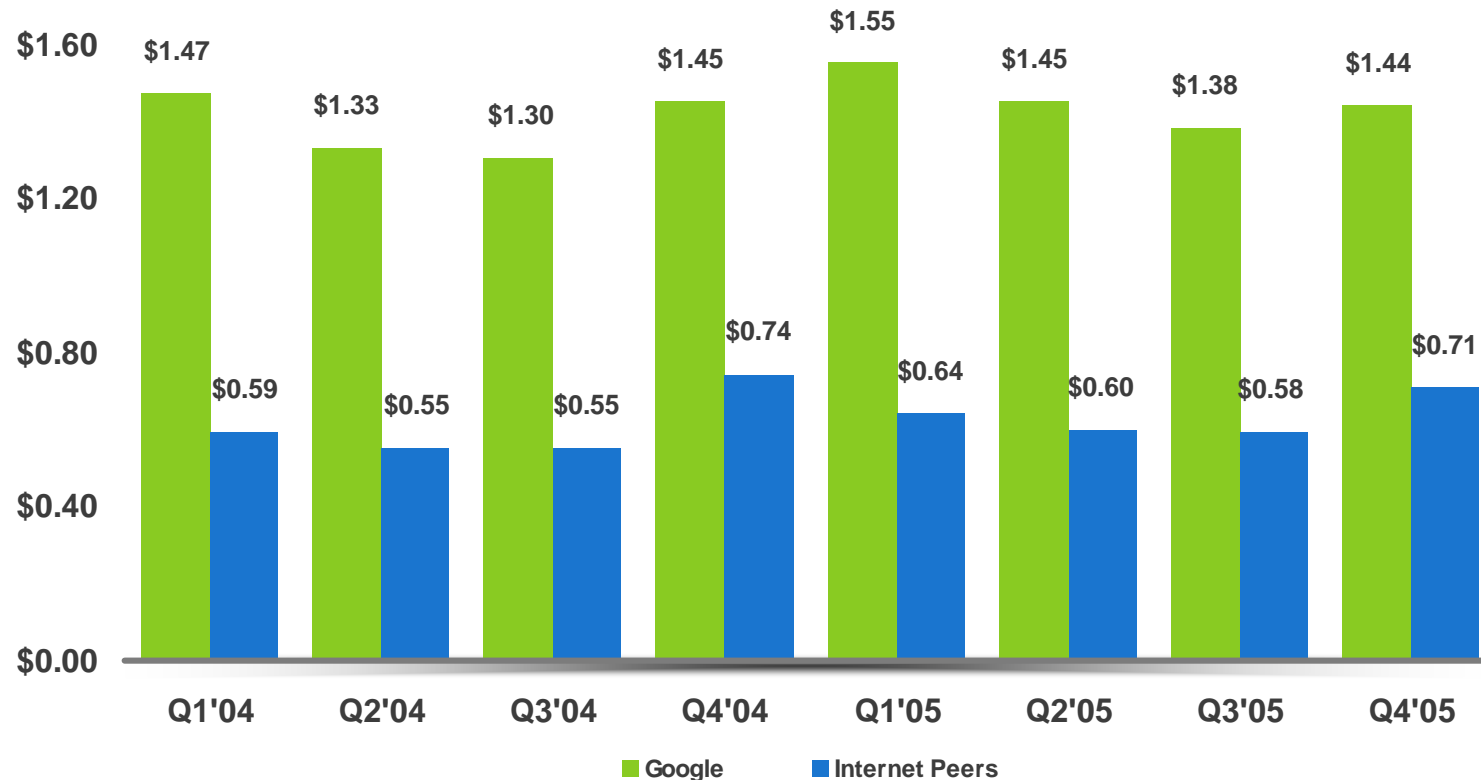


# How Should We Think About Operating Expenses?

## Annualized revenue per average employee

(In millions)

\$2.00



Source: Peer data compiled from company filings and press releases.

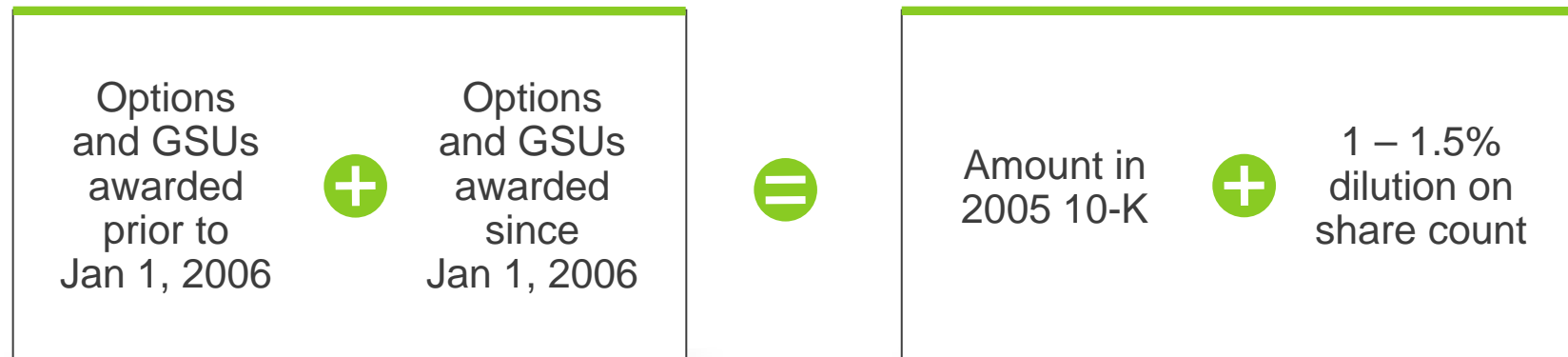
# How Should We Think About Operating Expenses?

---

## Stock Based Compensation

- Types of equity awards
  - Stock options
  - Restricted stock units (Google Stock Units)
    - New hire grants and Founders Awards

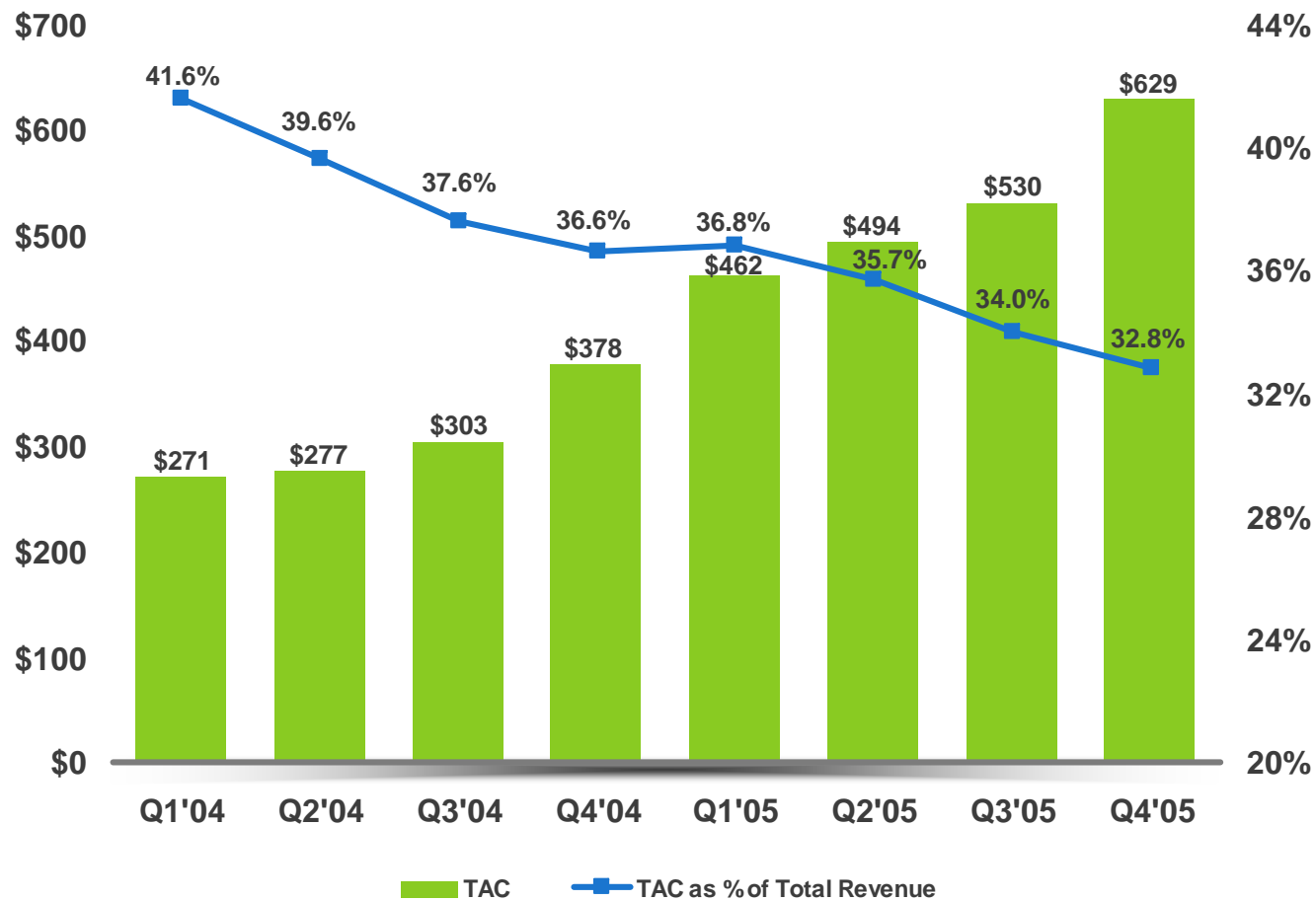
### Calculating 2006 SBC Charges



# Are You Experiencing Pressure on TAC?

## Traffic acquisition costs

(In millions)



# How Do You Evaluate Strategic Distribution Opportunities?

---



## Strategic Objectives

- Increase and protect search market share
- Build brand recognition
- Establish relationship and create new channels for distributing future products

## Partner Selection

- End user reach / size of distribution
- End user segment
- Brand association
- Strategic implications

# How Do You Evaluate Acquisition Opportunities?

---

## We focus on acquisition targets that...

- Are consistent with our mission
- Bring superior engineering talent
- Accelerate our product plans
- Jumpstart innovation
- Accelerate entry into new international markets

## When evaluating potential opportunities, we...

- Structure earnouts where appropriate
- Typically do not lead investment rounds

# 2006 Priorities

---

## 2006 Priorities

Search Quality &  
End User Traffic

Quality of Ads as  
Perceived by End Users

Building New Products and  
Services for Publishers  
of Information

Growing our Overall  
Partnerships

Building Systems  
and Infrastructure of a  
Global \$100B Company

## Investments

R&D and CapEx to  
improve search and  
develop new products

R&D and CapEx to  
improve ad relevance  
and advertiser tools

R&D, CapEx and S&M

S&M and  
Partnerships / TAC

CapEx, R&D and G&A to  
develop world class  
systems and processes

## Key Objectives

Increased **Traffic**  
Increased **Ad Revenue**

Increased **Ad Revenue**

More **Content** for Users  
More Ways to **Monetize**

Growth of **AdSense**  
Wider Product **Distribution**  
More **Traffic** for Advertisers

Continue to Implement  
**Controls** and **Risk Mgmt**  
Processes

# Putting it All Together...

---

- Strong Growth in Revenues and Operating Income
- Substantial Free Cash Flow Generation
- Rigorous Financial Planning and Controls
- Global Opportunities are Compelling
- Aggressive Investments to Drive Superior Shareholder Returns

**Google™**  
**Analyst Day 2006**