

**Alphabet Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except share amounts which are reflected in thousands and par value)

	As of December 31, 2015	As of December 31, 2016 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,549	\$ 12,918
Marketable securities	56,517	73,415
Total cash, cash equivalents, and marketable securities (including securities loaned of \$4,531 and \$0)	73,066	86,333
Accounts receivable, net of allowance of \$296 and \$467	11,556	14,137
Receivable under reverse repurchase agreements	450	0
Income taxes receivable, net	1,903	95
Inventory	491	268
Prepaid revenue share, expenses and other assets	2,648	4,575
Total current assets	90,114	105,408
Prepaid revenue share, expenses and other assets, non-current	3,181	1,819
Non-marketable investments	5,183	5,878
Deferred income taxes	251	383
Property and equipment, net	29,016	34,234
Intangible assets, net	3,847	3,307
Goodwill	15,869	16,468
Total assets	\$ 147,461	\$ 167,497
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,931	\$ 2,041
Short-term debt	3,225	0
Accrued compensation and benefits	3,539	3,976
Accrued expenses and other current liabilities	4,768	6,144
Accrued revenue share	2,329	2,942
Securities lending payable	2,428	0
Deferred revenue	788	1,099
Income taxes payable, net	302	554
Total current liabilities	19,310	16,756
Long-term debt	1,995	3,935
Deferred revenue, non-current	151	202
Income taxes payable, non-current	3,663	4,677
Deferred income taxes	189	226
Other long-term liabilities	1,822	2,665
Total liabilities	27,130	28,461
Commitments and contingencies		

**Stockholders' equity:**

Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 687,348 (Class A 292,297, Class B 50,295, Class C 344,756) and 691,293 (Class A 296,992, Class B 47,437, Class C 346,864) shares issued and outstanding	32,982	36,307
Accumulated other comprehensive loss	(1,874)	(2,402)
Retained earnings	89,223	105,131
Total stockholders' equity	<u>120,331</u>	<u>139,036</u>
Total liabilities and stockholders' equity	<u>\$ 147,461</u>	<u>\$ 167,497</u>

**Alphabet Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In millions, except per share amounts)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2015	2016	2015	2016
	(unaudited)		(unaudited)	
Revenues	\$ 21,329	\$ 26,064	\$ 74,989	\$ 90,272
Costs and expenses:				
Cost of revenues	8,188	10,661	28,164	35,138
Research and development	3,510	3,622	12,282	13,948
Sales and marketing	2,679	3,118	9,047	10,485
General and administrative	1,572	2,024	6,136	6,985
Total costs and expenses	15,949	19,425	55,629	66,556
Income from operations	5,380	6,639	19,360	23,716
Other income (expense), net	(180)	218	291	434
Income before income taxes	5,200	6,857	19,651	24,150
Provision for income taxes	277	1,524	3,303	4,672
Net income	\$ 4,923	\$ 5,333	\$ 16,348	\$ 19,478
Less: Adjustment Payment to Class C capital stockholders	0	0	522	0
Net income available to all stockholders	\$ 4,923	\$ 5,333	\$ 15,826	\$ 19,478
Basic net income per share of Class A and B common stock	\$ 7.16	\$ 7.73	\$ 23.11	\$ 28.32
Basic net income per share of Class C capital stock	\$ 7.16	\$ 7.73	\$ 24.63	\$ 28.32
Diluted net income per share of Class A and B common stock	\$ 7.06	\$ 7.56	\$ 22.84	\$ 27.85
Diluted net income per share of Class C capital stock	\$ 7.06	\$ 7.56	\$ 24.34	\$ 27.85

**Alphabet Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2015	2016	2015	2016
	(unaudited)		(unaudited)	
<b>Operating activities</b>				
Net income	\$ 4,923	\$ 5,333	\$ 16,348	\$ 19,478
Adjustments:				
Depreciation and impairment of property and equipment	1,153	1,464	4,132	5,267
Amortization and impairment of intangible assets	251	223	931	877
Stock-based compensation expense	1,436	1,846	5,203	6,703
Deferred income taxes	387	(157)	(179)	(38)
Loss on marketable and non-marketable investments, net	302	71	334	275
Other	55	57	212	174
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(1,758)	(2,279)	(2,094)	(2,578)
Income taxes, net	(1,272)	972	(179)	3,125
Prepaid revenue share, expenses and other assets	(522)	198	(318)	312
Accounts payable	371	(128)	203	110
Accrued expenses and other liabilities	777	1,177	1,597	1,515
Accrued revenue share	408	455	339	593
Deferred revenue	98	181	43	223
Net cash provided by operating activities	<u>6,609</u>	<u>9,413</u>	<u>26,572</u>	<u>36,036</u>
<b>Investing activities</b>				
Purchases of property and equipment	(2,102)	(3,078)	(9,950)	(10,212)
Proceeds from disposals of property and equipment	2	14	35	240
Purchases of marketable securities	(18,151)	(13,550)	(74,368)	(84,509)
Maturities and sales of marketable securities	16,045	12,516	62,905	66,895
Purchases of non-marketable investments	(406)	(247)	(2,326)	(1,109)
Maturities and sales of non-marketable investments	5	305	154	494
Cash collateral related to securities lending	(838)	0	(350)	(2,428)
Investments in reverse repurchase agreements	(50)	0	425	450
Acquisitions, net of cash acquired, and purchases of intangible assets	8	(662)	(236)	(986)
Net cash used in investing activities	<u>(5,487)</u>	<u>(4,702)</u>	<u>(23,711)</u>	<u>(31,165)</u>
<b>Financing activities</b>				
Net payments related to stock-based award activities	(765)	(879)	(2,375)	(3,304)
Adjustment Payment to Class C capital stockholders	0	0	(47)	0
Repurchases of capital stock	(1,780)	0	(1,780)	(3,693)
Proceeds from issuance of debt, net of costs	3,373	0	13,705	8,729
Repayments of debt	(3,387)	(13)	(13,728)	(10,064)
Net cash used in financing activities	<u>(2,559)</u>	<u>(892)</u>	<u>(4,225)</u>	<u>(8,332)</u>
Effect of exchange rate changes on cash and cash equivalents	(82)	(307)	(434)	(170)
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(1,519)</u>	<u>3,512</u>	<u>(1,798)</u>	<u>(3,631)</u>
Cash and cash equivalents at beginning of period	18,068	9,406	18,347	16,549
<b>Cash and cash equivalents at end of period</b>	<u>\$ 16,549</u>	<u>\$ 12,918</u>	<u>\$ 16,549</u>	<u>\$ 12,918</u>

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

The following table presents certain non-GAAP consolidated results before certain items (in millions, except share amounts which are reflected in thousands and per share amounts, unaudited):

	Three Months Ended December 31, 2015			Three Months Ended December 31, 2016		
	GAAP Actual	Adjustments	Non-GAAP Results	GAAP Actual	Adjustments	Non-GAAP Results
Revenues	\$ 21,329		\$ 21,329	\$ 26,064		\$ 26,064
Cost of revenues	8,188	\$ 252 <sup>(b)</sup>	7,936	10,661	\$ 336 <sup>(b)</sup>	10,325
Research and development	3,510	739 <sup>(b)</sup>	2,771	3,622	907 <sup>(b)</sup>	2,715
Sales and marketing	2,679	240 <sup>(b)</sup>	2,439	3,118	301 <sup>(b)</sup>	2,817
General and administrative	1,572	205 <sup>(b)</sup>	1,367	2,024	302 <sup>(b)</sup>	1,722
Income from operations	\$ 5,380	\$ 1,436	\$ 6,816	\$ 6,639	\$ 1,846	\$ 8,485
Operating margin <sup>(a)</sup>	25.2%		32.0%	25.5%		32.6%
		\$ 1,436 <sup>(b)</sup>			\$ 1,846 <sup>(b)</sup>	
		(316) <sup>(c)</sup>			(586) <sup>(c)</sup>	
Net income	\$ 4,923	\$ 1,120	\$ 6,043	\$ 5,333	\$ 1,260	\$ 6,593
Diluted net income per share for Class A and B common stock and Class C capital stock <sup>(d)</sup>	\$ 7.06		\$ 8.67	\$ 7.56		\$ 9.36
Shares used in per share calculation - diluted	697,025		697,025	700,221		700,221

(a) Operating margin is defined as income from operations divided by revenues.

Non-GAAP operating margin is defined as non-GAAP income from operations divided by revenues.

(b) To eliminate SBC expense, excluding expense related to awards that we expect to ultimately settle in cash.

(c) To eliminate income tax effects related to SBC, which includes the incremental benefits recognized resulting from the adoption of ASU 2016-09 beginning in Q1 2016.

(d) GAAP and non-GAAP diluted EPS for Q4 2016 reflect the dilutive effect of non-Alphabet equity. GAAP and non-GAAP net income used to calculate diluted EPS for Q4 2016 were \$5,297 million and \$6,557 million, respectively.

**Non-GAAP operating income and operating margin.** We define non-GAAP operating income as income from operations excluding expenses related to SBC, and, as applicable, other special items. Non-GAAP operating margin is defined as non-GAAP operating income divided by revenues. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of SBC expense, and as applicable, other special items so that Alphabet's management and investors can compare Alphabet's recurring core business operating results over multiple periods. For purposes of determining non-GAAP operating income, we define SBC as awards accounted for under FASB ASC Topic 718 that we expect to settle in stock. SBC expense does not include expenses related to awards that we expect to ultimately settle in cash. Alphabet's management believes that providing a non-GAAP financial measure that excludes SBC expense allows investors to make meaningful comparisons between Alphabet's recurring core business operating results and those of other companies, as well as providing Alphabet's management with an important tool for financial and operational decision making and for evaluating Alphabet's own recurring core business operating results over different periods of time. There are a number of limitations related to the use of non-GAAP operating income versus operating income calculated in accordance with GAAP. First, non-GAAP operating income excludes some costs, namely, SBC expense, that are recurring. SBC expense has been and will continue to be for the foreseeable future a significant recurring expense in Alphabet's business. Second, SBC is an important part of our employees' compensation. Third, the components of the costs that we exclude in our calculation of non-GAAP operating income may differ from the components that our peer companies exclude when they report their results of operations. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP operating income and evaluating non-GAAP operating income together with operating income calculated in accordance with GAAP.

**Non-GAAP net income and diluted EPS.** We define non-GAAP net income as net income excluding SBC expense, net of the SBC related tax benefits, and, as applicable, other special items less the related tax effects. The tax effects of such items are calculated based on the tax deductible portion related to SBC and, as applicable, other special items, and applying the entity-specific, U.S. federal and blended state tax rates. We define non-GAAP diluted EPS as non-GAAP net income divided by total weighted average outstanding shares, on a fully-diluted basis. We consider these non-GAAP financial measures to be useful metrics for management and investors for the same reasons that Alphabet uses non-GAAP operating income and non-GAAP operating margin. However, in order to provide a complete picture of our recurring core business operating results, we exclude from non-GAAP net income and non-GAAP diluted EPS the SBC related tax benefits, and, as applicable, the tax effects of other special items. Without excluding these tax effects, investors would only see the gross effect that excluding these expenses had on our operating results. The same limitations described above regarding Alphabet's use of non-GAAP operating income and non-GAAP operating margin apply to our use of non-GAAP net income and non-GAAP diluted EPS. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP diluted EPS and evaluating non-GAAP net income and non-GAAP diluted EPS together with net income and diluted EPS calculated in accordance with GAAP.

**Reconciliation from net cash provided by operating activities to free cash flow (in millions, unaudited):**

	<b>Three Months Ended December 31, 2016</b>
<b>Net cash provided by operating activities</b>	\$ 9,413
Less: purchases of property and equipment	(3,078)
<b>Free cash flow</b>	<u>\$ 6,335</u>
<b>Net cash used in investing activities <sup>(a)</sup></b>	<u>\$ (4,702)</u>
<b>Net cash used in financing activities</b>	<u>\$ (892)</u>

*(a) Includes purchases of property and equipment.*

*Free cash flow.* We define free cash flow as net cash provided by operating activities less capital expenditures. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the acquisition of property and equipment, including information technology assets and land and buildings, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. Analysis of free cash flow also facilitates management's comparisons of our operating results to competitors' operating results. A limitation of using free cash flow versus the GAAP measure of net cash provided by operating activities as a means for evaluating Alphabet is that free cash flow does not represent the total increase or decrease in the cash balance from operations for the period because it reflects the cash used for capital expenditures during the period. Our management compensates for this limitation by providing information about our capital expenditures on the face of the statement of cash flows and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Alphabet has computed free cash flow using the same consistent method from quarter to quarter and year to year.

**Reconciliation from GAAP revenues to non-GAAP constant currency revenues (in millions, unaudited):**

	Three Months Ended December 31, 2016 <i>(using Q4'15's FX rates)</i>	Three Months Ended December 31, 2016 <i>(using Q3'16's FX rates)</i>
<b>United Kingdom revenues (GAAP)</b>	\$ 2,062	\$ 2,062
Exclude foreign exchange impact on Q4'16 revenues using Q4'15 rates	349	N/A
Exclude foreign exchange impact on Q4'16 revenues using Q3'16 rates	N/A	87
Exclude hedging gains recognized in Q4'16	(134)	(134)
<b>United Kingdom constant currency revenues (non-GAAP)</b>	<u>\$ 2,277</u>	<u>\$ 2,015</u>
Prior period United Kingdom revenues, excluding hedging gains (non-GAAP)	\$ 1,883	\$ 1,806
United Kingdom revenue growth rate (GAAP)	7%	9%
United Kingdom constant currency revenue growth rate (non-GAAP)	21%	12%
<b>Rest of the world revenues (GAAP)</b>		
	\$ 11,286	\$ 11,286
Exclude foreign exchange impact on Q4'16 revenues using Q4'15 rates	(147)	N/A
Exclude foreign exchange impact on Q4'16 revenues using Q3'16 rates	N/A	132
Exclude hedging gains recognized in Q4'16	(53)	(53)
<b>Rest of the world constant currency revenues (non-GAAP)</b>	<u>\$ 11,086</u>	<u>\$ 11,365</u>
Prior period Rest of the world revenues, excluding hedging gains (non-GAAP)	\$ 8,821	\$ 9,891
Rest of the world revenue growth rate (GAAP)	24%	14%
Rest of the world constant currency revenue growth rate (non-GAAP)	26%	15%
<b>United States revenues (GAAP)</b>		
	\$ 12,716	\$ 12,716
United States revenue growth rate (GAAP)	24%	19%
<b>Revenues (GAAP)</b>	<u>\$ 26,064</u>	<u>\$ 26,064</u>
<b>Constant currency revenues (non-GAAP)</b>	<u>\$ 26,079</u>	<u>\$ 26,096</u>
Prior period revenues, excluding hedging gains (non-GAAP)	\$ 20,997	\$ 22,346
Revenue growth rate (GAAP)	22%	16%
Constant currency revenue growth rate (non-GAAP)	24%	17%

*Non-GAAP constant currency revenues and growth.* We define non-GAAP constant currency revenues as total revenues excluding the impact of foreign exchange rate movements and hedging activities, and use it to determine the constant currency revenue growth on year-on-year and quarter-on-quarter bases. Non-GAAP constant currency revenues are calculated by translating current quarter revenues using prior period exchange rates and excluding any hedging gains recognized in the current quarter. Constant currency revenue growth (expressed as a percentage) is calculated by determining the increase in current quarter revenues over prior period revenues, where current quarter international revenues are translated using prior period exchange rates and hedging benefits are excluded from revenues of both periods. We consider non-GAAP constant currency revenues and growth as useful metrics as they facilitate management's internal comparison to our historical performance because they exclude the effects of foreign currency volatility that are not indicative of our core operating results.

**Other income (expense), net**

The following table presents our other income (expense), net, (in millions, unaudited):

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2015</b>	<b>2016</b>
Interest income	\$ 274	\$ 325
Interest expense	(26)	(33)
Foreign currency exchange losses, net	(161)	(38)
Loss on marketable securities, net	(287)	(84)
Gain (loss) on non-marketable investments, net	(15)	13
Other	35	35
Other income (expense), net	<u>\$ (180)</u>	<u>\$ 218</u>



## Segment results

The following tables present our revenues, operating income (loss), stock-based compensation, capital expenditures, and depreciation, amortization, and impairment by segment (in millions, unaudited):

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Revenues:</b>		
Google	\$ 21,179	\$ 25,802
Other Bets	150	262
Total revenues	<u>\$ 21,329</u>	<u>\$ 26,064</u>
<b>Operating income (loss):</b>		
Google	\$ 6,744	\$ 7,883
Other Bets	(1,213)	(1,088)
Reconciling items <sup>(1)</sup>	(151)	(156)
Total income from operations	<u>\$ 5,380</u>	<u>\$ 6,639</u>
<b>Stock-based compensation<sup>(2)</sup>:</b>		
Google	\$ 1,278	\$ 1,653
Other Bets	131	161
Reconciling items <sup>(1)</sup>	27	32
Total stock-based compensation	<u>\$ 1,436</u>	<u>\$ 1,846</u>
<b>Operating income (loss), excluding stock-based compensation<sup>(2)</sup>:</b>		
Google	\$ 8,022	\$ 9,536
Other Bets	(1,082)	(927)
Reconciling items <sup>(1)</sup>	(124)	(124)
Total income from operations, excluding stock-based compensation	<u>\$ 6,816</u>	<u>\$ 8,485</u>
<b>Capital expenditures:</b>		
Google	\$ 1,787	\$ 2,888
Other Bets	193	504
Reconciling items <sup>(3)</sup>	122	(314)
Total capital expenditures	<u>\$ 2,102</u>	<u>\$ 3,078</u>
<b>Depreciation, amortization, and impairment:</b>		
Google	\$ 1,313	\$ 1,586
Other Bets	70	101
Reconciling items <sup>(1)</sup>	21	0
Total depreciation, amortization, and impairment	<u>\$ 1,404</u>	<u>\$ 1,687</u>

<sup>(1)</sup> Reconciling items are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

<sup>(2)</sup> For purposes of segment reporting, we define SBC as awards accounted for under FASB ASC Topic 718 that we expect to settle in stock. SBC for segment reporting does not include expenses related to awards that we expect to ultimately settle in cash.

<sup>(3)</sup> Reconciling items are related to timing differences of payments as segment capital expenditures are on accrual basis while total capital expenditures shown on the Consolidated Statements of Cash Flows are on cash basis and other miscellaneous differences.

## Revenues by source

The following table presents our revenues by revenue source (in millions, unaudited):

	Three Months Ended December 31,	
	2015	2016
<b>Revenues:</b>		
Google properties	\$ 14,936	\$ 17,968
Google Network Members' properties	4,142	4,431
Google advertising revenues	19,078	22,399
Google other revenues	2,101	3,403
Google segment revenues	21,179	25,802
Other Bets revenues	150	262
Total revenues	<u>\$ 21,329</u>	<u>\$ 26,064</u>