**Operator**

Good day, everyone and welcome to the Google Inc. Fourth Quarter 2014 Earnings Conference Call. This call is being recorded.

At this time I'd like to turn the call over to Ellen West, Vice President, Investor Relations. Please go ahead.

**Ellen West**

Thanks so much, Jamie. Good afternoon, everyone, and welcome to Google's fourth quarter 2014 earnings conference call. With us today are Patrick Pichette and Omid Kordestani.

As you know, we distribute our earnings release through our Investor Relations website located at investor.google.com. So please refer to our IR website for our earnings releases as well as the supplementary slides that accompany the call. This call is also being webcast from investor.google.com. A replay of the call will be available on our website later today.

Now, let me quickly cover the Safe Harbor. Some of the statements that we make today may be considered forward-looking including statements regarding Google's future investments, our long-term growth and innovation, the expected performance of our businesses and our expected level of capital expenditures. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that these forward looking statements reflect our opinions only as of the date of this presentation and we undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our SEC filings for a more detailed description of the risk factors that may affect our results.

Please note that certain financial measures that we use on this call, such as operating income and operating margin, are expressed on a non-GAAP basis and have been adjusted to exclude charges related to stock-based compensation and, as applicable, other special items. We have also adjusted our net cash provided by operating activities to remove capital expenditures, which we refer to as free cash flow. Our GAAP results and reconciliations of non-GAAP to GAAP measures can be found in our earnings press release.

With that, I will now turn the call over to Patrick.

**Patrick Pichette**

Thanks, Ellen. And welcome to 2015 everyone. Before we get into the numbers, I am going to give a brief overview of our performance this quarter, as the data is actually quite noisy through the P&L. So to start, let's say, that we saw continued strength in our core advertising business. This was really driven by a strong holiday and mobile performance from our Sites line. We saw a great momentum in our programmatic business highlighted by our mobile display and our ads platform product. But we also faced a few real challenges as well.

On the revenue side, clearly as you heard out the strengthening of the U.S. dollar resulted in a gross negative currency impact of $616 million just into Q4. But thanks to our hedging program the net impact was actually attenuated, with a net revenue impact of $468 million. Also on the Other Revenue line not only did we see that negative currency impact really impact the Play growth, particularly in Japan, but also while the Nexus 7 was very well received as a new phone, we had real issues and unable to secure sufficient inventory to meet the demand that we had forecasted. So for both these factors in fact, we see lower other revenue growth this quarter.

On the expense side, we had number of unusual charges to our operating expenses hit this quarter. I'll provide you more details in a few minutes as we go through the conversation. But together these items added up to slightly over $300 million in expenses to our P&L.

Lastly, if you go through the CapEx line, you will note that we've made real estate purchases in Q4, which helped us relieve both pressure on our work space for current employees but also to accommodate our future growth. And this also resulted in a large sequential increase in our real estate capital expenditures this quarter. So now that you have the basics, why don't we dive into the details?

Our gross total consolidated revenue grew 15% year-over-year to $18.1 billion, and it was up 10% quarter-over-quarter. Without currency fluctuations our gross consolidated revenue growth would have, in fact, been 18% year-over-year. And despite all the FX pressure our Google Sites revenue was up a healthy 18% year-over-year to $12.4 billion, was up 10% quarter-over-quarter, in part driven by the strength in our mobile search.

Network revenue was up 6% year-over-year at $3.7 billion and was up 8% quarter-over-quarter. As a reminder, our network business includes really two types of businesses with different growth profiles, our legacy AdSense business, particularly AdSense for search, where we've continued to make policy changes for the benefit of our user experience, but which has negatively impacted the growth in clicks specifically.

Our clean-up efforts have resulted in fewer clicks, but also higher CPCs as I'll discuss in a minute. The other business that in the network line are newer display and programmatic businesses including AdMob, AdExchange, DoubleClick Bid Manager, and these continue to grow at a strong rate. Finally, Google's other revenue grew 19% year-over-year to $2 billion was up 6% quarter-over-quarter, driven by year-over-year growth in our Play Store, but offset by the FX impact and the challenges in our hardware business I mentioned earlier.

Our global aggregate paid clicks were up 14% year-over-year, and up 11% quarter-over-quarter. Aggregate CPCs were down 3% year-over-year and also down 3% quarter-over-quarter. And if we go on our monetization by property, the Google site paid clicks were up 25% year-over-year and up 18% quarter-over-quarter. With Google sites' CPCs were down 8% year-over-year and down 8% quarter-over-quarter.

On the network side, network paid clicks were down 11% year-over-year and down 7% quarter-over-quarter, but our network CPCs were up year-over-year 6% and 10% quarter-over-quarter for the reasons I mentioned. Our monetization metrics continued to be impacted by a number of factors. They include geographic mix, device mix, property mix, FX, as well as ongoing product and policy changes.

Turning to geographic performance, if you go to our earning slides, which you'll find on our Investor Relation website, you'll see that we've broken down our revenues by US, UK and rest of world to show the impact of FX and the benefits of our hedging program. So please refer to those slides for the exact calculations. So despite large currency headwinds we saw solid performance from our core advertising business around the world. The US revenue was up 14% year-over-year to $7.9 billion. The UK was up 10% year-over-year to $1.7 billion. And in fixed FX term it actually grew to 11% year-over-year.

Non-US revenue excluding the UK was up 18% year-over-year to $8.6 billion, accounting for 47% of total revenue.

And in fixed FX terms in fact the rest of the world grew at healthy 24% year-over-year. So let me turn now to expenses. Traffic acquisition costs were $3.6 billion or 22% of advertising revenue. Our non-GAAP other costs of revenue was $3.1 billion in Q4, which exclude SBC as well. Our non-GAAP operating expenses totaled $5.8 billion, again excluding stock-based compensation. And as a result our non-GAAP operating profit was $5.6 billion and non-GAAP operating margins were 31% in Q4.

As I mentioned at the beginning, we had a number of unusual operating expenses that impacted us this quarter. We typically review our estimates accounting policies and balance sheet on an ongoing basis and make adjustments when we think and see it necessary. Normally, I wouldn't call out these, but because they totaled slightly over $300 million this quarter, I wanted to give you some sense of these adjustments, although I won't be providing a lot of detailed break-out.

So first we took approximately half that amount in compensation charges resulting from a one-time payment and reclassification between SBC and bonus expense. The other half came from a review of our real estate portfolio, where we decide to take write-down on a small number of assets and also one-time payment to buy out a number of leases in a couple of markets where we face acute space pressure.

Headcount was up, but just over 2,000 in Q4. In total we ended the quarter with approximately 53,600 full-time employees. You'll notice also that our effective tax rate was 16%, again another discrepancy for Q4, which was really, primarily impacted by the extension of the R&D tax credits for 2014 with the entire credit being taken in Q4. As well as continued mix shift from earnings between our domestic and international subsidiaries.

Let me now turn to cash management. Other income and expenses was $128 million. Interest income and realized gains on investments offset the continued impact of expenses from our FX hedging programs. For more detail on OI&E, please refer to the slides that accompany this call on our IR website.

We are pleased with our strong operating cash flow at $6.4 billion. Our CapEx for the quarter was $3.6 billion. And this quarter, most of the CapEx was spent on related to facilities, production equipment, and datacenter construction in that order. So as I mentioned a few minutes ago, we have been opportunistic about acquiring space in real estate where we need to relieve pressure and accommodate for future growth.

To that end, our facilities expenditure included just over $900 million of real estate investments during the quarter, of which $585 million was related to the acquisition of our property in Redwood City that we disclosed in our 10-Q for the third quarter.

Our free cash flow was $2.8 billion, and I also want to note that we completed in Q4 the sale of Motorola Mobile to Lenovo in October 29. We recognize a gain on disposition of $740 million net of tax, which is included in our net income from discontinued operations. So there you have it, despite a noisy quarter from a P&L perspective. We can say that we had strong results in our core business as evidenced by our 18% fixed FX growth this quarter and are well-positioned for the year ahead in the long-term.

As Larry says, although the vast majority of our resources in time continue to be invested in our core products, we also have enthusiasm to invest in new promising ideas like Self-Driving Cars or Loon. We use the same disciplined approach to these new areas that we used for investing in our earlier bets like Android or Chrome or Display.

Our projects start with small dedicated teams that are given clear milestones to hit before they can get further investments. And in cases where we achieve success against our milestones, we expand our investments, and you saw this as an example earlier this week with our Fiber teams. We greenlighted 18 cities in four metropolitan areas in the U.S., out of the 34 cities and 9 metros that we had reviewed in 2014, and they're off to the races.

In other cases, when the teams aren't able to hit hurdles, but we think there are still a lot of promise. We might ask them to take a pause and take the time to reset their strategies, as we recently did in the case of Glass. And in those situations our project don't have the impact we had hoped for, we do take the tough calls. We make the decision to cancel them and you've seen us do this time and time again.

So before I turn it over to Omid, I'd like also to note that in many ways 2014 was a year of significant investment growth, both in CapEx and OpEx at Google. From an investment perspective, we'll continue to seek a healthy balance between growth and discipline and the willingness to throw a little back when we reached the limits of what we believe we can manageably absorb. So with that in mind, I'll take it over to Omid now to provide more specifics on the successful performance of our core and new businesses.

Omid is joining us by phone from another location today. So I hop it over to you, Omid.

**Omid Kordestani**

Thanks, Patrick. Hi, everyone, happy New Year. And thanks for joining us today. This is Omid. It's my pleasure to join you from London tonight. I'm glad to be here to reflect on the last quarter and look ahead to 2015.

2014 ended with healthy momentum enabling us to achieve $66 billion in revenue for the year. In Q4, we launched Lollipop, our newest version of Android, refreshed our line of Nexus devices and introduced Inbox by Gmail, a new inbox that enables users to focus on the messages that matter most to them.

Meanwhile our sales teams worked diligently with our advertising partners to deliver a strong holiday season. Today, I'll do a quick walkthrough of the business highlights from Q4. First, I'll give an overview of the different sectors of our ads business, performance and brand advertising and our advertising platforms. Then I'll cover progress in our emerging non-ads businesses.

Let's begin with the performance advertising. We continue to evolve the foundation of Google's advertising business to reflect a multi-screen constantly connected world. Mobile is now a behavior, not a device, and it has a variety of unique characteristics.

First, let's talk about local advertising. On mobile, consumers want to know about the stores and goods near them. We launched some exciting updates last quarter. In October, we announced local availability for product listing ads and local store front, products that give customers real time information about goods that are in stock close to where they are.

Major retailers like Macy's and REI took advantage of these local inventory ads during the holidays. Overall, we saw strong engagement and results from big-box retailers during the holiday season. A second priority has been the creation of new measurement tools. We recently added estimated store visits to our estimated total conversations measurement suite. Now, advertisers can see a reliable estimate of the number of times a search ad click drive the store visit.

During the holidays, ULTA Beauty reported that 12% of clicks on search ads led to a store visit with significant gains in ROI from their AdWords search marketing spend. These mobile-specific metrics help advertisers measure the full impact of their mobile marketing.

The third area of progress is apps. We have driven hundreds of millions of app downloads on Google Search, AdMob and YouTube. And this business continues to grow at a healthy clip.

During the holiday season, Office Depot used Google Search Ads to promote their ElfYourself app that helps shoppers create videos of people re-imagined as dancing elves. By using Google Search Ads they saw a 65% conversion rate. We have recently enabled users to more seamlessly navigate between apps and the web and find what they are looking for in apps more quickly.

In organic search 15% of signed-in users' searches on Android now return deep links to apps. We also offer app deep linking in search ads. Booking.com uses Google Search Ads to drive installs and reengagement via deep linking for their mobile app.

Last quarter, we continued to see great traction with our established mobile advertising products as well, particularly Google Shopping. Online growth remains strong with Google Shopping traffic on mobile devices up nearly 100% compared to Q4 2013. For much of the holiday season mobile shopping clicks exceeded those on desktop as users increasingly made purchase decisions on the go.

Now, I would like to turn to YouTube, where we continue to deliver great results for brand advertisers. YouTube now has more than 1 billion users. Everyday people watch hundreds of millions of hours of video on YouTube, generating billions of views. Watch time is up 50% year-over-year. We continue to invest in our YouTube Partners and Partner revenue has increased by more than 50% year-over-year. We are seeing great momentum in mobile advertising on YouTube. Mobile revenue on YouTube is up more than 100% year-over-year.

TrueView, where advertisers pay only if someone watches their ad also continues to do very well. Walmart U.S.'s holiday performance is one of many success stories. During the week of Black Friday, they used YouTube's TrueView format to drive a 300% week-over-week increase in views of their channel and more than 28 million views on the week.

This was a 600% increase in YouTube channel views over the same week in 2013. And while we are all anticipating a certain football game in Arizona this weekend, the action has already begun for its advertisers on YouTube. Nearly 70 ads or teasers related to the big game have been posted to YouTube this year, up 55% from the same time last year. People have been - people have already watched them more than 44 million times, up 25% from last year and for more than 70 million minutes on YouTube nearly tripled the watch time compared to the same point last year.

On average people watch each ad for more than a minute-and-a-half. We continue to develop the tools that make digital work for brand marketers, their agencies and premium publishers.

There were two particular areas of focus from Q4 that I would like to highlight, programmatic and measurement. Let's start with programmatic. Automated ad buying has benefitted performance-driven advertisers for years. We're now extremely well positioned as brand advertising shifts to programmatic as well.

We're seeing great traction overall from our advertising and agency partners. Today, all the top 10 global agencies use at least one product in our double click suite. Specific products within the double click suite have shown exceptional momentum. DoubleClick Bid Manager, our primary frontend for programmatic buying has doubled in volume over the past year.

During the recent us mid-term election, programmatic represented nearly one-third of advertisers' Google ad budgets.

We're seeing that video, the ultimate brand medium, is starting to move to programmatic as well. After launching in June of 2014, Google Partner Select, our premium programmatic video marketplace now has more than 50 publisher partners including Hearst Television, and Food Network, and includes brands like BMW.

Next, we continue to invest in measurement tools that enable advertisers, agencies and publishers to better understand the results of their digital marketing. It starts with addressing the question of viewability. Nothing else matters if a human did not see your ad. This is the top question for the industry and at Google we are doing our part to address it.

Since July, we have been rolling out viewability report across our ad platforms, so that brands will know whether their video ads on digital channels were actually seen or not. We recently extended this activity reporting to video ads.

Large advertisers are finding technology like this to be very useful. For example, Kellogg's used DoubleClick Digital Marketing to buy their inventory programmatically and increased their ad viewability by 70%.

Once a brand knows that their ads have been viewed they need to determine if the right people saw those ads and if they made an impact. That's where our tools to measure brand lift come in. We have run more than 6000 brand lift surveys to help determine brand recall and purchase intent.

For example, Mondelez wanted to measure the effectiveness of a recent digital campaign for the launch of a gum brand. With brand lift they found a 36% lift in brand awareness versus a control group, and a 97% lift in ad recall versus a control group. Getting these types of feedback in real time is impossible with offline media. This sets digital apart.

Let's move now to our emerging non-ad businesses. Google for Work had a great quarter. We started working with PwC to help them and a company they advise used Google for Work to move their businesses to the cloud. Cloud Platform continues to make good progress. We hosted our second Google Cloud Platform live event in November where we announced several new products such as Google Container Engine.

Our digital content businesses are strong. I'm excited about Google Play's development. Movies are now available in more than the 102 countries, music in 58, and books in 65. It's growing internationally at unprecedented speed. In December, we partnered with Sony to digitally release the interview. It has been publicly reported that the film generated over $15 million in its first weekend, and that Google Play and YouTube drove the majority of those sales.

We launched YouTube music key beta a monthly music subscription service that provides ad free music, background play, and offline viewing. This will also include a subscription to Google Play Music with more than 30 million songs, expert queue rated play lists, and more. Our hardware efforts demonstrate momentum just in time for the holidays we launched the Nexus 6, Nexus 9, and Nexus Player devices.

Chromecast continues to be a hit. Just last week, we saw our 1 billionth tap of the cast button. Chromecast usage per device has increased by 60% since launch due to a growing roster of new apps and features.

According to NPD Retail Tracking Service, in 2014, Chromecast was the number one selling streaming media device in the U.S. Chromebooks are now available in 33 different markets and enjoying strong success in K-12 education market in the U.S. I continue to be impressed by the work of our marketing teams that they've done around the world. The Year in Search has become an instant classic and YouTube Rewind is fast becoming one.

From the Android Be Together Not the Same Campaign to Nest's first TV ads and much more our marketing team contributed to our success in the all-important Q4 to a wide variety of efforts.

That's the wrap for 2014, and we are excited for what lies ahead in 2015. In closing, I want to thank our great partners, customers, and users, without them, we wouldn't be successful. Thank you all so much.

Now, let's get back to Patrick for Q&A.

**Patrick Pichette**

Thank you, Omid. Before we turn to Jamie for Q&A, I was highlighted by the team here that, I actually had a slip, I said Nexus 7 instead of Nexus 6. And although the Nexus 7 is still a great device, what I really meant in my comments was to talk about the Nexus 6, which is this amazing device that we have launched with the Lollipop launch.

So with that, I'll turn it to Jamie, and we'll go to Q&A. Jamie, if you can give the instructions please.

**Question-and-Answer Session**

**Operator**

Thank you. [Operator Instructions] And we'll take our first question from Stephen Ju with Credit Suisse.

**Stephen Ju**

Okay, thanks. So Patrick or Omid, I think, it's been a few years since you talked to the Street about the run rate of your Display business. I wanted to see if you are willing to toss us a nugget here in terms of what your gross billings currently maybe, recognizing that you may be seeing growth in that revenue contribution depending on different products. And also it looks like the UK revenue saw modest bit of acceleration on an FX neutral basis, granted comps were probably modestly easier, but anything you can call out that would help there? Thanks.

**Patrick Pichette**

Yes, sure. It's Patrick here. So on both topics, on the UK, we did see a good performance this quarter on UK versus last quarter, and as you said - mentioned, a 11% year-over-year. So the note of the UK is, the core business there is doing well. If you go back to last the deceleration, we have - it's a big portion, it's like 10% of our revenue, and we over 10%.

The - you will remember that in our mix of products that are in the UK, clearly, our core products are there, but also AFS, like the network business is actually prominent in UK, as well in the U.S. less so in the rest of the world. And so that has an issue on the mix. And then also think of it as a promising item, which is, there is areas of new products, such as Play that are actually stronger international than they would be in the UK or in the U.S. So there lies some of the differences between the growth rates, but in many ways a lot of opportunities there, so that's what's going on in the UK, quite pleased with the progress there in Q4.

And then on the issue of Display, we haven't updated the numbers to the Street. And so we have to continue to, kind of, give you the updates that we do, and if we actually have a chance in the future then we'll let you know when it's time to do so. So thanks for your questions, Steven. And we'll go to the next question, please. Jamie?

**Operator**

And we'll take our next question from Carlos Kirjner with Bernstein.

**Carlos Kirjner**

Hi, thank you. Two questions, if I may, Patrick. You hired 2,000 people this quarter versus 1,700 in the same quarter last year, which is a 22% increase. But Google management talks a lot about the opportunity in front of the business. If that's the case, why aren't you hiring more people and spending more in R&D. Can you tell us what are the specific constraints that you guys have or imposed on yourselves that prevent you from hiring 3,000 people this quarter instead of 2,000? That's the first one.

The second is the following, a few quarters ago, I seem to recall you saying that, you did not manage the business for margins, but you managed it for profit growth. Yet your operating income is down year-on-year and even if you are, the $200 million is growing very slowly. You could see how investors would look at that and say, well, how do you reconcile these things? How do you think investors should think about this trajectory of operating income growth? Thank you.

**Patrick Pichette**

Okay. So let's take them in - each in step. On the issue of hiring, you will notice that relative to last quarter also, which is our third quarter is typically a big quarter, because we get the influx of the hires we do at colleges and otherwise. We actually decelerated from the third quarter as well. What we are managing for is, we just have a very high bar for hiring, if you can pass the bar, then we hire you. We also have capacity constraints on leadership, because there is a natural kind of number that you can kind of absorb within the culture of Google, it's really important not to lose that culture and to have a velocity, to have traction.

So there is no sense bringing 5,000 people that we couldn't kind of bring into the teams and really make them perform it. So what we manage on the hiring is, we have our plans, and so we have a rate of targets of hires per each of the pals and the areas of the company. And then from there, the next hurdle is really about, can we find these people?

And then finally, just making sure that we keep this kind of balance of bringing at a reasonable rate, so that we can actually absorb them in the company without losing the velocity and the culture of the place. So it's actually a pretty complex puzzle, but we are managing it, it's never perfect, but we are managing it, to the best we can. So that's the first question.

On the issue of margins, look, we have different, if you think of the businesses in Google, we are looking for growth, we are looking for growth in revenue, we are looking for growth in operating profits absolute dollars, and we are looking for great returns on investment. That's the puzzle we solve for.

So you have an advertising business that may have higher margins, lower capital intensity, than say, another business, which maybe Play, which has much lower margins, great prospect for growth with very large pools of revenue and margins available and we go after them for sure. You have Fiber right, and in the access, which is a completely different kind of capital intensity. But, again, the question is, does it promise, or does it have a case for large dollars operating profit delivery and high revenue and then a decent return on capital, that's how we manage it.

And to kind of say, okay, well, we have what we have today, but if Play could grow at, just to take the case, ten times faster than it is doing right now, right, it would impact margin, because on the weighted average basis, it would drag it down, but we love it. We love to be able to grow Play ten times faster than we are today. So that's how we think of the puzzle. We manage them each individually for their potential, their returns, we all look for these big margin pools and these big revenue pools, and then we just allocate our capital to make sure that it's balanced across these initiatives for maximum velocity. That's the way we think about it, Carlos.

**Carlos Kirjner**

Thank you.

**Patrick Pichette**

Thank you very much for your question. Jamie, let's go to our next question, please.

**Operator**

And we'll go next to Anthony DiClemente with Nomura.

**Anthony DiClemente**

Thanks a lot for the question. I have two. Patrick, given the importance of Google stock price as a motivator for existing employees, for recruitment of new employees. I think, many investors out there wonder if we are getting closer to a point where it might be a wise use of resources to return capital to shareholders. Other large tech companies do it, nearly all the media companies do, at what point would you and at what point would the board of Google consider capital returns?

And then second question is, I'm just wondering on the switch of the default browser on Mozilla from Google to Yahoo! in the quarter, and going forward is there any way you can quantify the impact of that? And the investors also wondering, is it possible that could happen for your Safari agreement with Apple? Thanks a lot.

**Patrick Pichette**

So, why don't I take the last question first and then the first question. The last question is, you've all heard the announcements about Mozilla. And so when we don't comment on the details of any of our partnerships that we have. Having said that, we continue to do two things that really matter. One is our users continue to actually go in, if they love Google, they will continue to find Google, whichever platform, whichever browser, and that's really what we've focused on doing.

And then the second piece is the way to win this in the long-term, right, it's very simple. You just make wonderful products. And when you make wonderful products that are magical people will find them.

And so that's the strategy that we're using and we just don't comment on any of our - we've never commented on any of our deals, so we want comment on Mozilla either. And then, for your first question, Anthony, I mean, again I can't - I just can reiterate the same message that I give on a regular basis, which is share price does matter. It matters to our board. It matters to all of us. We're all shareholders in the company. And we do review this issue on a regular basis. We review it again responsibly with the Audit Committee, with the board. And I just have nothing to announce today.

**Anthony DiClemente**

Thank you.

**Patrick Pichette**

Thank you so much for your question, Jamie. Let's go to our next question, please.

**Operator**

And we'll take our next question from Eric Sheridan with UBS.

**Eric Sheridan**

Thanks for taking the questions. One on device mix, which, Omid, you called out. Is there any sense you can give us of whether some of the pricing per ad unit is starting to close from the device mix. So even though you're giving more volumes from mobile whether be smartphone or tablet we're starting to see any impact of pricing continues to move up versus desktop pricing you're seeing across your ad portfolio, would love any commentary around that. And then second, Patrick, you called out the FX impact in the Q4, any help you can give us on how we should be thinking about the FX impact going forward on their a gross or a net basis to the business as you see it versus spot today? Thanks.

**Patrick Pichette**

Sure, I'll let Omid answer the first question then I'll jump on the second.

**Omid Kordestani**

Sure. Thanks, Eric for the question. The way we look at this, as I said, we look at mobile and as a behavior today really as - versus a specific device. And people are using screen interchangeably, simultaneously throughout the day. And we really think about the user and the context rather than a particular form factor or device. And similarly in terms of the pricing model here, what we are focused on really building this ecosystem just the way desktop took a long time to develop and have the right ad formats that really took advantage that the platform had to offer. We're looking at this the same way.

We are developing different kinds of formats, working with marketers on mobile, estimated store visits, app install, app re-engagement ads and cross device conversions. And we really feel good about the traction we're having and our sales team and advertiser agencies partners are working with us making rapid progress here.

So unfortunate, I can disclose any specific breakdowns, but I can just say that we are very focus on all aspects of this just as we evolve to desktop we're doing the same in this world. On to you, Patrick.

**Patrick Pichette**

Thank you. On the issue of FX, I think that the most important point to think about in Q4 is - I mean it was material. As I said, it was like on a gross basis over $600 million. You've all seen the deterioration of the euro, the GDP, the yen, I mean it's versus the U.S. dollar. The one thing I would just note from our results in Q4, I mentioned this in the past that, our FX rates are set at Google a month in arrears. So in last week of November we would have set our FX rate for December. So interestingly, the December rates we'll set January.

And you've seen already in December a continued kind of nose dive in certain areas, especially the euro, and the yen. So, all I can say is for all the information we have right now is, that's not going away.

And I think that everybody should be kind of considering it. On the flipside of that, I just want to kind of reinforce the fact that our FX hedging program continues to do exactly what it's supposed to do, which is in a low volatility environment we buy insurance. And in moments where we have such shocks like we're having right now, we did get a lot of benefit out of this hedging program and just as a remainder we hedge profits, right? We don't hedge revenue. It just happens that we book the profits to revenue, because of the accounting rules.

And so we've seen in Q4 approximately $150 million of hedge benefits, which is actually quite a substantial amount on the total $600 million and we'll continue to have hedge benefits through the course of the year to a certain extent. So I think that from that perspective, right, real hit in December additional, but in a good position from our hedge FX program.

**Eric Sheridan**

Great. Thank you so much.

**Patrick Pichette**

Thank you for those questions. Jamie, why don't we go to our next question, please.

**Operator**

And we'll go next to Ross Sandler with Deutsche Bank.

**Ross Sandler**

Great. I had two questions. Patrick, towards the end of the prepared remarks you said that Google show a balance of growth and discipline, and a willingness to throw a little back. Can you just elaborate on that comment? What do you mean when you say that? Are you referring to the pace of expense growth or throwing something back in terms of capital allocation, just a little clarity on that one?

And then, Omid, the question on app indexing, I think you guys said in November that log-in searches have about 15% coverage in terms of app content. Where is that percentage today and when do you guys think it will be closer to 100%? Thanks.

**Patrick Pichette**

Ross, let me - it's Patrick, let me jump in on the first question then I'll let Omid answer the second.

On the first one, all I wanted to highlight to our investors, shareholders and community at large is, as I said, 2014 was a year of significant investment growth. I mean, we see real potential in so many areas that are exciting to us and where we see great momentum. That - what I wanted to make sure is that, our investors continue to understand that we will push for growth, but in a disciplined manner. And if things don't materialize in the way that you don't hit your hurdles, you don't hit your timing, right, we are actually disciplined to make sure that we don't have expenses ahead of the curve and we continue to monitor it quite closely.

So in that sense if we see conditions change, it's really important that you have the confidence that when we manage these investments we do it in the prudent manner, right, optimistic, but there's always a dose of circumspection to make sure that you get the best bang for your buck in these roll-outs.

And that's what I really want to kind of communicate and signal to the Street, which is, it's a balance. It's always about a balance but given our situation, given all of the results that we've had, I mean, 18% year-over-year growth, in our sites if you just look at the sites, which is the core of the business growing 18% year-over-year, despite all the FX headwinds, right?

It just tells you, look, this is a license to continue to invest smartly in the way we do, but I just want to kind of reaffirm to you that we do it in smart way and a discipline manner. We're driving forward make sure we don't waste our shareholders money.

So with that, I'll turn it over to Omid to answer the first question, please.

**Omid Kordestani**

Yes. Thanks, Ross. So as I said in my opening remarks that 15% of signed-in users' searches on Android now return deep links to app. The way we are focused on this is that we have opened up app indexing to all Android developers, so their apps can appear in searches, also linking directly to the right content in the apps. And it really becomes the job between the developers trying to understand intent and how obviously our research works and determining the best results to provide, including the deep links. We offer this deep linking and search ads as well. Booking.com use Google Search Ads to drive installs and reengagement via deep linking for their mobile approximately, and we are seeing more and more adoption like this by our advertisers.

So, obviously, it's an area we are going to continue making progress on, we are very pleased to the traction we are having and how mobile monetization is performing. Thank you.

**Patrick Pichette**

Thanks for your question, Ross. Let's go to our next question, Jamie, please.

**Operator**

And we'll go next to Ben Swinburne with Morgan Stanley.

**Benjamin Swinburne**

Thank you. Patrick, just going back to return of capital again, there was– there's some news today that there is a potential bill to allow repatriation of cash back to the U.S. at a 6% tax rate. I'm wondering, would that impact, how you and the board would think about return of capital, or is that sort of a completely relevant separate point?

And then second, for me - for either of you, any color you can share with us on your wireless ambitions, I think, both on the MVNO side and 3.5 gigahertz, there has been a lot of discussion in the press about what Google is up to, any update you can give us on that, would be great?

**Patrick Pichette**

So, on the second question, thank you for your questions, Ben. And on the second question that you've asked, right, there is a lot of speculation out there. And if we had to answer off every speculation on Google's part, what's going on, I mean, we just would be - my PR team would be really busy. So we just won't comment on any speculative news.

On the first question, on return on capital, absolutely, I mean, we have right now a mix of, kind of, roughly 60-40 between our U.S. 40, international 60 of our cash. We have good use for our cash in both places. But if, in fact, we had a lot more flexibility about repatriating cash, that would make a big difference in the way that we think about it and or, at least, we'd take it in consideration for sure in our dialogue with the board. And so it's clearly one element, that's part of the puzzle that we would take in consideration. So if there is anything you can do to get that thing through Congress, Ben, we would really love it and just let us know when that happens.

**Benjamin Swinburne**

I will call my Congress person. Thank you.

**Patrick Pichette**

Thank you so much. All right, Jamie, we are going to go to our next question, please.

**Operator**

And we'll go next to Douglas Anmuth with JP Morgan.

**Douglas Anmuth**

Thanks for taking the question. You've had greater emphasis on e-commerce over the last few years with Google Shopping and Express. I was hoping you could give us an update on Google Wallet and how strategic that is to your business overall and kind of closing the loop payments in general.

And then secondly, can you comment, Patrick, on whether there is just anything in particular in driving the gap that we saw on sites between paid click volume and CPCs beyond some of the normal mix shift issues and FX? Thanks.

**Patrick Pichette**

So why don't I take the second question immediately, and then I'll let, Omid, answer the issue of the commerce. So on the first one, look, it's - I want to come back on the sites issue, because 25% and then the minus 8% in terms of click growth and CPSs. And I want to start with that, because that's always the case when people kind of just focus on one, they - we kind of tend to forget the big picture, which is, it's a mix of these two things that give you this revenue that's been very strong in sites this quarter, so never look at them in isolation.

Having said that, as I said in my prepared remarks, the monetization metrics for sites has all the factors that I kind of usually discuss, which is geographic, device, property, the FX and all the things I talk about. So I think, it would be misguided again this quarter to pin it down to just one trend. I think people have a tendency to say, okay, well, it's mobile, or it's FX. And but I would like to point out three things specifically this quarter.

As we know as I already mentioned right, FX has been a big impact this quarter. I also noted the strength of mobile performance in our sites earlier. And I remind you that, our sites line also includes YouTube, where we continue to see impressive growth, both in developed countries and emerging markets.

So, there is the rest of it, there is all these pieces, but these are some of the pieces that we should take note during this quarter. Does that make sense? I will turn it over to Omid, to answer the first question on what's going on with Google Shopping et cetera?

**Omid Kordestani**

Yes, on Shopping and commerce in general, then I'll talk on payments, really our focus is building products that turn consumers' shopping intents into actions, quickly, easily and enabling businesses to connect and retain these customers. On payments, the goal is really to remove all the friction that one encounters now in the shopping experience. And what we're really working on here is, move beyond just tap and pay and have a full functional payment system.

Today, users can send to money to friends through Gmail using their wallet app and also just made this functionality available in the UK. Loyalty, gift cards can be stored on the Wallet app to buy with Google button makes it possible for users to purchase with two clicks. So we really are focused on building a rich offering here to make it easier to shop and pay and remove the friction. Thank you, Doug.

**Patrick Pichette**

Thank you so much for you question, Doug.

**Douglas Anmuth**

Thank you.

**Patrick Pichette**

Jamie, let's go to our next question, please.

**Operator**

And we'll go next to Justin Post with Merrill Lynch.

**Justin Post**

All right. Thank you. I don't know if you can help us at all, but just kind of overview of core search growth at all, if you can, in some of your mature markets anyway to breakdown that at all? And then as you think about the search improvements you've made, just a little high level overview, obviously, big changes with PLAs and enhanced campaigns over the last couple of years, didn't seem like, there was a lot for this holiday, but maybe outline some of the improvements you've made recently? And then any - how is your pipeline looking for this year? Thank you.

**Patrick Pichette**

Omid, do you want to take that question?

**Omid Kordestani**

Yes, I'll start and then we can add more context if you have more color you need, Justin. So in terms of product listing at PLAs, it's very successful products and we are really pleased with its performance, advertisers are very pleased with it. And we also have local inventory apps that enable merchants to show customers this information in the U.S., UK, France, Germany, Japan, and Australia, and obviously we are going to continue to expand that.

As I said in my remarks, we added estimated store visits in December, and it's been one year since we launched estimated total conversions. And just to give you some anecdotes with customers, PetSmart saw 10% to 18% of clicks on search Ads led to store visits and they're now investing more in Ads to reach customers across multiple screens, Famous Footwear nationwide chain have 1,100 stores. They found that 15% to 17% of the clicks on Ads resulted in store visits, and they were able to mix up the products that they promote and there is in-store merchandising strategies by region.

So it's - for us it's early to think about the impact of revenue, but we really expect these suite of products to continue to help the advertisers measure at a full value of their online spending and work with us to enhance those. In terms of specific search numbers, we don't really break that down, and provide any more data on that. Thank you for your question.

**Patrick Pichette**

Thank you, Justin. We'll have - do we have time - couple of more questions, okay. So, Jamie, let's go to our next question, please.

**Operator**

And we'll go next to Mark Mahaney with RBC Capital Markets.

**Mark Mahaney**

Hey, thanks. I'll echo Stephen Ju's comment earlier, I think it would be great if you broke out that nonperformance advertising at some point in the future that data point would be very helpful. The CPC trends on sites that - they kind of inflected back down after showing a positive trend. It's kind of hard to think that that's nothing, but FX, I know, you have this mix of other factors, could you just clarify that, or could you quantify what CPC sites, CPSs would have been year-over-year ex-FX?

And then finally, Omid, could you just talk broadly about YouTube and you've come back you're more engaged with the company, I think, there is bit of a change in management's approach, I think, the YouTube and how you want to position it, I know it's a broad question, but could you just talk about what you want to do differently with YouTube, going forward to the next few years? Thank you.

**Patrick Pichette**

So on the first question, why don't I jump in and then I'll let Omid talk about Q2. Look, as I mentioned just a minute ago, if you look at the sites CPCs, we purposefully actually don't point to one item, like I think, it would be tempting to just say, okay, so it's all FX this quarter, because geography has a big impact. As I mentioned right, the different properties on our sites, YouTube has an impact as well in the sense that's it's growing and it's growing in emerging markets, as well as in its core more developed markets.

I purposefully made the case that's important to note that, on the mobile side, I think, we see continued strength in mobile. And so from that perspective, it's always trying to catch-up to the desktop, which itself as always improving, but we see positive trend there. So it is the mix of all these factors and we don't give down all of the details on a quarter-by-quarter basis, because they just move all over the place. So that's the answer for that one, Mark. Sorry, that's not Mark. And then, I'll let Omid answer the question on YouTube.

**Omid Kordestani**

Sure. So first of all, in general, just to give you sense of this, as you said, I've come back in, I just spent a lot of time CES, here in Europe spending time with customers as well. And there is just tremendous excitement about YouTube, and over 1 billion people come to the service every month and YouTube mobile revenue is up more than 100% year-to-year. And what we're really after here is finding the click for brand, GRP brand list, other metrics, and advertisers are already running brand list studies about 6,000 of them have done this with that - already with us.

And what's really unique about this service is the velocity that the creators enjoy to create and deliver content to a worldwide audience, and our investments in the service and the creators just continue to pay back for us. So I know based on my meetings, I spent a lot of time with consumer goods companies at CES with major agencies there. Everybody just wants to do more. There are a lot of success stories the way they engage with us. And for us the challenge frankly is to structure our sales organization, hire the right people to go deeper with these customers with our agencies. And so you'll just see a lot of success and emphasis from us as we go after the branding dollars.

**Mark Mahaney**

Thank you, Omid. Thank you.

**Patrick Pichette**

Thank you so much, Mark. Jamie, we're going to take one more question, so if you can turn it on, please.

**Operator**

And we'll go next to Mark May with Citi.

**Patrick Pichette**

Mark, are you there?

**Operator**

And if you check your mute button, sir, we cannot hear you.

**Mark May**

Hello.

**Patrick Pichette**

There we are.

**Mark May**

Right, sorry about that. Two questions please. Could you tell us what your strategy is in the area of digital payments and is there way that you can leverage Android to develop differentiated product in the market.

And then, secondly, sorry, if I missed this. But how should we be thinking about the strategic and the financial importance of search partnerships like, for instance, the Safari deal. And if there is anything that we should be reading into the recent changes at Mozilla, and I think before that Spotlight and Siri search as far as either Google strategy and thinking in this area or its competitiveness in these deals? Thanks. Sorry, it's a lot, but…

**Patrick Pichette**

That’s okay, Mark. No problem. So I’ll take the second question, and then I’ll flip it over to Omid to answer the Wallet one. So on the issue of partnerships, Google has a lot of partnerships, right, it’s got - it’s an anchor of our strategy, because that actually gives us distribution, distribution is good. And so we also we look for partnerships in many spaces.

Partnerships have to be win-wins, and in that sense, right, we’ll always look for those combinations. But also at the end of the day, there’s a second piece of the strategy, which is, as I said earlier, building amazing product, because if you build the amazing products then people want to distribute you product.

And so that’s why, we have a meet in the whole search team that actually do this amazing job through the knowledge graph and all of the other elements of search, and no matter what the device, no matter the location, no matter the time of day. If we give you the answer as you’re looking for and 10 clicks less than it was before and then even faster and better all the time, that’s what wins, and that’s the core of what we’re focused on, and then people will find the way to get the Google.

So, yes, partnerships matter. But at the core of it, you need partnership, because you have a phenomenal product. And that’s what we’re going to continue to build this amazing company. So I’ll let with that Omid talk about our developments for digital payments.

**Omid Kordestani**

Hi, Mark, I already addressed this a little earlier, but - so I’ll summarize it again. But we’re really after removing the friction here in all the products to improve commerce and make the experience for our users seamless here. And there’s really two areas we’re focused on; one is really building a full functional payment system that just is beyond tap and pay. So I mentioned that earlier using Gmail and the Wallet App to send money to friends, loyalty and gift cards and buying with Google button with a press of two clicks.

So and we just - the NFC devices are available, and we are really getting closer and closer to broader merchandise option. And so you’ll see us emphasizing that through the devices that we are supporting out there, as well as the payment services and commerce services that we provide. So I think, you will see a lot of progress here as we - as I said try to remove the friction here.

**Patrick Pichette**

Thank you so much for your question, Mark. Omid, I need to thank you. I mean, you're at the other end of the world and staying late for us, I think, I just can't thank you enough for all of your support over…

**Omid Kordestani**

It's my pleasure. We're excited about the year ahead and looking forward to future updates with this group of people. Thank you.