

Registered Number 7386350

DEERMIND TECHNOLOGIES LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017

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DEEPMIND TECHNOLOGIES LIMITED

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DEEPMIND TECHNOLOGIES LIMITED

Strategic Report For the year ended 31 December 2017

The Directors present their strategic report of DeepMind Technologies Limited (the "Company") for the year ended 31 December 2017.

Review of the business

The Company specialises in the research and application of cutting edge machine learning, including the provision of technical services to other companies.

The Company's key financial performance indicators during the year were as follows:

Turnover represents technical service fees from other group undertakings, it increased from £40 million to £54 million in the year, an increase of £14 million.

Administrative expenses increased from £164 million to £334 million, an increase of £170 million in the year. The increase mainly relates to a rise in technical infrastructure, staff costs and other related charges.

During the year, the Company acquired intellectual property assets for cash consideration of £2.3 million. The transaction was accounted for as a business combination with the identifiable intangible assets measured at fair value of £1.2 million.

The statement of comprehensive income and the statement of financial position are set out on pages 9 and 10 respectively. The loss for the financial year of £302 million has been added to the shareholders' deficit.

Principal risks and uncertainties

Machine learning research and application is an emerging market characterised by continuous change and intense competition. As a result, the Company will continue to face risks and uncertainties, which may have a significant impact on its ability to achieve continued success within its market. To mitigate this risk the Company follows a well-informed risk based approach for decision making.

By order of the board


Ronan Harris
Director

Date: 28.09.2018

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report For the year ended 31 December 2017

The directors present their report of the Company for the year ended 31 December 2017.

Directors

The directors who held office during the year and up to the date of this report were:

Ronan Harris
Kenneth Yi

Company secretary

The company secretary for the year and up to the date of this report is Taylor Wessing Secretaries Ltd.

Political and charitable contributions

During the year the Company made no political donations (2016: £nil). The Company made charitable and academic donations of £8,153,193 (2016: £307,578).

Research and development

The Company specialises in the research and application of cutting edge machine learning, including the provision of technical services to other companies. The revenue associated with those activities during the financial period is £54 million (2016: £40 million) representing technical service fees from other group undertakings.

Future developments

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

Results and dividends

The Company's loss for the financial period is £302 million (2016: £94 million). The directors do not propose the payment of a dividend for the year (2016: £nil).

Going Concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report and Directors' Report.

The directors of the Company have received written assurances from an intermediate parent undertaking, Google LLC, that it will continue to provide adequate financial support to the Company for a period of at least twelve months from the date of approval of these financial statements to enable the Company to discharge its financial obligations to all creditors as they fall due.

On this basis, the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company, therefore, continues to adopt the going concern basis in preparing its financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report (continued) For the year ended 31 December 2017

Events since year end date

There were no significant events since the year end date or to the date of approval of the financial statements that require adjustments to or disclosure in the financial statements.

Qualifying third party indemnity provisions

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') (United Kingdom Generally Accepted Accounting Practice).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that financial period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report (continued) For the year ended 31 December 2017

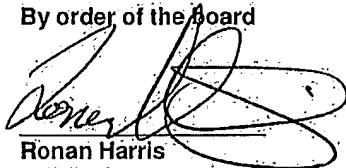
Disclosure of information to auditors

The directors confirm that, so far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, the directors have taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for appointment of Ernst and Young as auditor of the Company.

By order of the board



Ronan Harris
Director

Date: 28.09.2018



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMIND TECHNOLOGIES LIMITED

Opinion

- We have audited the financial statements of Deepmind Technologies Limited ('the Company') for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards issued including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).
- In our opinion, the financial statements:
 - give a true and fair view of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

- We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
- We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Continued/...



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMIND TECHNOLOGIES LIMITED
(Continued)**

Other information

The other information comprises the information included in the Strategic Report and the Directors' Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

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

Continued/...



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMIND TECHNOLOGIES LIMITED (Continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young

Guido Franken (Senior statutory auditor)
for and on behalf of Ernst & Young, Statutory Auditor

Dublin

28 September 2018

DEEPMIND TECHNOLOGIES LIMITED

Statement of Comprehensive Income For the year ended 31 December 2017

	Notes	2017 £	2016 £
Turnover	4	54,422,527	40,283,597
Administrative expenses		(333,852,928)	(163,811,997)
Operating loss	5	(279,430,401)	(123,528,400)
Other expense	6	-	(1,054,361)
Other income		130,239	19,680
Interest receivable and similar income		-	6,008
Interest payable and similar charges	7	(2,593,373)	(1,998,394)
Loss from ordinary activities before taxation		(281,893,535)	(126,555,467)
Tax on loss from ordinary activities	8	(20,311,015)	32,609,848
Loss for the financial year		(302,204,550)	(93,945,619)

All amounts relate to continuing operations.

Other comprehensive income

There were no items of other comprehensive income for the current period and therefore no separate statement of other comprehensive income has been prepared.

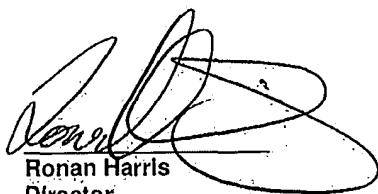
The notes on pages 12 to 24 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Statement of Financial Position As at 31 December 2017

	Notes	2017 £	2016 £
Fixed assets			
Tangible assets	9	1,133,220	465,350
Intangible assets	10	1,157,140	-
Financial assets	11	765,095	765,095
		<u>3,055,455</u>	<u>1,230,445</u>
Current assets			
Debtors: amounts falling due within one year	12	99,173,584	51,547,318
Cash and cash equivalents		975,277	13,661,536
		<u>100,148,861</u>	<u>65,208,854</u>
Current Liabilities			
Creditors: amounts falling due within one year	13	(123,939,156)	(78,987,469)
		<u>(23,790,295)</u>	<u>(13,778,615)</u>
Net current liabilities			
		<u>(20,734,840)</u>	<u>(12,548,170)</u>
Total assets less current liabilities			
Creditors: amounts falling due after one year	14	(435,318,927)	(141,301,047)
		<u>(456,053,767)</u>	<u>(153,849,217)</u>
Net liabilities			
		<u>(456,053,767)</u>	<u>(153,849,217)</u>
Capital and reserves			
Called up share capital	15	1,641	1,641
Share premium		41,490,727	41,490,727
Retained loss		(497,546,135)	(195,341,585)
		<u>(456,053,767)</u>	<u>(153,849,217)</u>
Total shareholders' deficit			
		<u>(456,053,767)</u>	<u>(153,849,217)</u>

The financial statements on pages 9 to 11 and supporting notes to the financial statements on pages 12 to 24 were approved by the board of directors and were signed on its behalf by:



Ronan Harris
Director

Date: 28.09.2018

DEEPMIND TECHNOLOGIES LIMITED

Statement of Changes in Equity As at 31 December 2017

	Called-up share capital	Share premium	Retained loss	Total shareholders' deficit
	£	£	£	£
Balance at 1 January 2016	1,641	41,490,727	(101,395,966)	(59,903,598)
Loss for the year	-	-	(93,945,619)	(93,945,619)
Balance at 31 December 2016	1,641	41,490,727	(195,341,585)	(153,849,217)
Balance at 1 January 2017	1,641	41,490,727	(195,341,585)	(153,849,217)
Loss for the year	-	-	(302,204,550)	(302,204,550)
Balance at 31 December 2017	1,641	41,490,727	(497,546,135)	(456,053,767)

The notes on pages 12 to 24 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

1. General Information

DeepMind Technologies Limited (the "Company") specialises in the research and application of cutting edge machine learning, including the provision of technical services to other companies. The Company is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 5 New Street Square, London, EC4A 3TW.

2. Principal accounting policies and basis of preparation

2.1: Basis of preparation of financial statements

The financial statements of the Company were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") (accounting standards issued by the Financial Reporting Council), and in accordance with the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention.

The directors of the Company have received written assurances from an intermediate parent undertaking, Google LLC, that it will continue to provide adequate financial support to the Company for a period of at least twelve months from the date of approval of these financial statements to enable the Company to discharge its financial obligations to all creditors as they fall due.

On this basis, the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The Company is a qualifying entity for the purposes of FRS 101.

The Company is included in the consolidated financial statements of its ultimate parent undertaking, Alphabet Inc, which are publicly available.

Critical accounting judgements and key sources of estimation uncertainty used that are significant to the financial statements are disclosed in note 3 to the financial statements.

The significant accounting policies, which have been applied consistently in the current and previous financial year in the preparation of the Company's financial statements are set out below.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IAS 7 'Statement of Cash Flows';
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group;
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- IFRS 7 'Financial Instruments: Disclosures';
- Paragraphs 30 to 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- Paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)-(c), 120-127, and 129 of IFRS 15 'Revenue from contracts with customers';

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2. Principal accounting policies and basis of preparation (continued)

2.1. Basis of preparation of financial statements (continued)

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third statement of financial position);
 - 111 (cash flow statement information);
 - 134 to 136 (capital management disclosures).

2.2. New and amended IFRS standards and Interpretations

There are a number of changes to IFRS which became effective in 2017, however, they either did not have an effect on the financial statements or they are not currently relevant for the Company.

Adoption of IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes the revenue recognition requirements of IAS 18, Revenue and IAS 11, Construction Contracts, and requires entities to recognise revenue when control of the promised goods or services are transferred to customers, at an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. IFRS 15 has an effective date of 1 January 2018.

The Company has early adopted IFRS 15 on 1 January 2017 using the modified retrospective method applied to contracts not completed as of this date. Results for reporting periods beginning after 1 January 2017 are presented under IFRS 15, while prior period amounts are reported in accordance with IAS 18.

The adoption of IFRS 15 has resulted in no impact for the Company and no financial statement line item has been affected at the adoption date, or in the current period by the adoption of IFRS 15.

2.3. Foreign currency

The financial statements are presented in pound sterling ("£"), which is also the Company's functional currency and presentation currency. All values are in pound sterling ("£") to the nearest pound except where otherwise indicated.

Transactions denominated in foreign currencies are initially translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are then re-translated at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are taken to the statement of comprehensive income and included in administrative expenses. Non-monetary assets and liabilities, which are measured using historic cost, are translated at the exchange rates as at the date of the initial transaction and are not subsequently retranslated.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2. Principal accounting policies and basis of preparation (continued)

2.4. Turnover

The Company generates revenue through a service agreement with other group undertakings for the provision of research and development services.

Revenue from this agreement is recognised when the obligation to the customer is satisfied, and control of the promised service is transferred. The Company recognises revenue over time, as the customer simultaneously receives and consumes the benefits as the service is provided. The Company applies an output method, based on underlying financial results as agreed between parties, which is considered to faithfully depict the transfer of control to the customer.

The service fee charged is based on the level of expenses incurred by the Company in the performance of services. Where the transaction price contains variable consideration, the Company uses the most likely amount method in estimating revenue. These estimates are not constrained, as the Company assesses that it is highly probable that a significant reversal of revenue will not occur.

2.5. Current tax

The tax expense for the period comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except where the deferred tax asset or liability arises from the initial recognition of an asset or liability which affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable future taxable profits available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets are reviewed at each reporting date and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

2.6. Research and development

Research costs are expensed in the period in which they are incurred. The Company currently incurs no development costs which would meet the criteria for capitalisation as development expenditure under IAS 38.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2: Principal accounting policies and basis of preparation (continued)

2.7. Cash and cash equivalents

Cash and cash equivalents includes cash at bank, which is subject to an insignificant risk of changes in value.

2.8. Tangible assets

Tangible fixed assets are initially recorded at cost. Subsequent to initial recognition property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any.

Cost includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to profit or loss as incurred.

On disposal, the difference between the net disposals and its carrying amount is taken to the statement of comprehensive income.

Construction in progress is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Information technology assets	- 30% - 50% straight line (2016: 30%-50% straight line)
Construction in progress	- No depreciation as assets are not in use

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances in the year indicate that the carrying value may not be recoverable.

2.9. Intangible assets

Intangible assets are measured at cost less accumulated amortisation (less accumulated impairment, if any).

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Patents and developed technology are amortised on a straight line basis over their estimated useful life of 1 year or less. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2. Principal accounting policies and basis of preparation (continued)

2.10. Goodwill

Goodwill is initially measured at cost. After recognition, goodwill is measured at cost less any accumulated impairment losses.

UK Company Law requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations, goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Company Law. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Company's Cash Generating Units (CGUs), which are expected to benefit from the combination. Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

2.11. Impairment of non-financial assets

The Company tests the carrying value of its long-term tangible assets and intangible assets for impairment if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount, which in turn is the higher of an asset's fair value less costs of disposal and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

2.12. Financial assets

Recognition

Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2. Principal accounting policies and basis of preparation (continued)

2.12. Financial assets (continued)

Classification

The Company holds the following category of financial instruments:

- Investment in subsidiaries
- Receivables

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

(i) Investment in subsidiaries

Investment in subsidiaries is measured at cost less accumulated impairment losses. The company tests for impairment when circumstances indicate that the carrying value may be impaired. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount, which is the higher of net realisable value or value in use.

(ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

These are classified as non-current assets. The asset is initially recognised at its fair value including directly attributable and incremental transaction costs. Receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

If the original advanced amount to a fellow group entity does not equate to the fair value on initial recognition, the difference is reflected as a dividend to the parent of the Company. Interest income is recognised using the effective interest method.

2.13. Financial liabilities

Financial liabilities are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

The Company contains the following category of financial liabilities:

- Carried at amortised cost

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

2. Principal accounting policies and basis of preparation (continued)

2.13. Financial liabilities (continued)

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at amortised cost

Loans and borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Financial liabilities at amortised cost are included in 'Creditors: amounts falling due after one year' in the statement of financial position.

Interest expense relating to the financial liability is recognised in profit or loss on a time proportion basis using the effective interest rate method.

2.14: Business Combinations

The purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over those values is recorded as goodwill (if any). The fair values assigned to tangible and intangible assets acquired and liabilities assumed is based on management's estimates and assumptions, and other information compiled by management, including valuations that utilise established valuation techniques appropriate for the high technology industry.

Acquisition costs arising as a result of the transaction are expensed as administration costs in the period incurred.

3. Critical accounting estimates and judgements

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, the following critical judgements have been made which may have a significant effect on the amounts recognised in the financial statements.

Fair value of non-current assets

The fair values assigned to tangible and intangible assets acquired and liabilities assumed is based on management's estimates and assumptions.

Impairment of intangible assets and investments in subsidiaries

During the year, the Company tested for impairment intangible assets and investment in subsidiaries. These impairments were based on an estimation of the recoverable amount at the reporting date which includes assumptions on the each cash-generating unit's fair value less costs to sell and its value in use.

Key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management is of the opinion that there are no sources of estimation uncertainty involved that have a significant effect on the amounts recognised in the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

4. Turnover

	2017	2016
	£	£
Research and development fees from other group undertakings (US)	<u>54,422,527</u>	<u>40,283,597</u>

5. Operating loss

Operating loss is arrived at after charging the following:

	2017	2016
	£	£
Staff costs and other related costs	200,867,990	104,774,132
Depreciation	729,323	85,641
Amortisation of intangible assets	1,157,140	777,904
Auditor's remuneration	32,431	11,005

Staff and other costs are arrived at after recharging £201 million (2016: £105 million) from group companies.

The directors receive remuneration in respect of their services to the Company from other group companies. The cost of the services that they provided to the Company cannot be separately identified.

6. Other expense

	2017	2016
	£	£
Impairment of intangible assets	-	414,856
Impairment of investment in subsidiary	-	639,505
	<u>-</u>	<u>1,054,361</u>

7. Interest payable and similar charges

	2017	2016
	£	£
Interest on intergroup loans	<u>2,593,373</u>	<u>1,998,394</u>

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

8. Tax on loss from ordinary activities

Current tax

	2017 £	2016 £
Analysis of tax (charge)/ credit for the year		
Current tax credit on loss for the year	-	14,428,739
Adjustments in respect of prior years	(20,311,015)	18,181,109
Total current tax	(20,311,015)	32,609,848

Factors affecting tax (charge)/ credit for the year

	2017 £	2016 £
Loss for the year - continuing activities	<u>281,893,535</u>	<u>126,555,467</u>
Corporation tax on loss at the standard UK tax rate of 19.2466% (2016: 20%)	54,254,851	25,311,094
Effects of:		
Adjustments in respect of prior years	(20,311,015)	18,181,109
Expenses not deductible for tax purposes	(21,200,138)	(10,798,265)
Corporate Interest tax restriction	(338,952)	-
Amounts not recognised	(32,715,761)	(84,090)
Tax (charge)/ credit for the year	(20,311,015)	32,609,848

There is uncertainty as to the timing of when the Company will generate sufficient taxable profits to utilise tax losses carried forward. Therefore, the Company has not recognised deferred tax assets of £57,596,733.

Factors affecting future tax charges

The UK corporation tax rate has reduced from 20% to 19% from 1 April 2017 and is due to reduce to 17% from 1 April 2020.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

9. Tangible assets

	Information technology assets £	Construction in progress £	Total £
Cost			
As at 1 January 2017	481,387	69,604	550,991
Additions during the year	1,368,146	29,047	1,397,193
As at 31 December 2017	1,849,533	98,651	1,948,184
Depreciation			
As at 1 January 2017	85,641	-	85,641
Charge for the year	729,323	-	729,323
As at 31 December 2017	814,964	-	814,964
Net book value			
At 31 December 2017	1,034,569	98,651	1,133,220
At 31 December 2016	395,746	69,604	465,350

10. Intangible assets

	Patents and acquired technology £	Goodwill £	Total £
Cost			
As at 1 January 2017	-	-	-
Additions during the year	1,157,140	1,157,140	2,314,280
As at 31 December 2017	1,157,140	1,157,140	2,314,280
Amortisation			
As at 1 January 2017	-	-	-
Amortisation for the year	1,157,140	-	1,157,140
As at 31 December 2017	1,157,140	-	1,157,140
Net book value			
At 31 December 2017	-	1,157,140	1,157,140
At 31 December 2016	-	-	-

During the year, as part of the business combination (note 16), the Company acquired technology with a fair value of £1,157,140. The intellectual property was fully amortised as at the year end. No impairment of goodwill was identified at 31 December 2017.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

11. Financial assets

	Investment in subsidiary undertaking £
Cost	
As at 1 January 2017	1,404,600
Additions during year	-
At 31 December 2017	1,404,600
Impairment	
As at 1 January 2017	639,505
Impairment for the year	-
At 31 December 2017	639,505
Net book value	
At 31 December 2017	765,095
At 31 December 2016	765,095

Company Name	Type	Proportion held	Value Invested £
Hark Health Solutions Limited	Acquisition of shares	100%	1,404,600

No impairment was identified at 31 December 2017. Subsequent to year end management made a decision to liquidate this subsidiary undertaking.

12. Debtors: amount falling due within one year

	2017 £	2016 £
Amounts owed by group companies	43,464,982	30,599,664
VAT Receivable	41,604,986	20,305,457
Corporate tax receivable	13,935,064	467,636
Other debtors	168,552	174,561
	<u>99,173,584</u>	<u>51,547,318</u>

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

13. Creditors: amount falling due within one year

	2017 £	2016 £
Amounts owed to group companies	112,382,212	77,701,261
Trade creditors	1,350,954	722,575
Accruals	6,460,672	563,633
Other creditors	3,745,318	-
	<u>123,939,156</u>	<u>78,987,469</u>

All amounts and creditors are non-interest bearing and are settled within the Company's normal operating cycle.

14. Creditors: amount falling due after one year

	2017 £	2016 £
Loan from group companies and interest accrued	433,071,734	141,301,047
Other creditors	2,247,193	-
	<u>435,318,927</u>	<u>141,301,047</u>

The weighted average effective interest rate for loans and borrowings due to related companies for the year ended 31 December 2017 is 0.91% p.a. (2016: 1.91% p.a.). The loans are repayable no later than 30 October 2019.

15. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
16,406,358 Ordinary shares of £0.0001 each	<u>1,641</u>	<u>1,641</u>

There were no movements in the Company's ordinary shares during the year (2016: none).

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2017

16. Business combinations

In August 2017, the Company acquired intellectual property assets for a cash consideration of £2,314,280. The transaction was accounted for as a business combination. The identifiable intangible assets were measured at fair value of £1,157,140. The goodwill of £1,157,140 was generated from this transaction (note 10).

None of the goodwill recognised is expected to be deductible for income tax purposes.

Assets acquired and liabilities assumed

The fair values of the identifiable assets as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	£
Intellectual Property	1,157,140
Total identifiable net assets at fair value (note 10)	<u>1,157,140</u>

The intellectual property was fully amortised as at the year end. No impairment of goodwill was identified at 31 December 2017.

17. Parent undertaking and controlling party

The Company's ultimate holding company is Alphabet Inc., a company incorporated in the United States of America, while its immediate parent undertaking and controlling party is Google Ireland Holdings Unlimited Company, a company incorporated in the Republic of Ireland.

Alphabet Inc. is the smallest and largest group into which these financial statements are consolidated. The consolidated financial statements are available to the public and may be obtained from 1600 Amphitheatre Parkway, Mountain View, CA 94043, United States of America or can be obtained from the investor relations website at <https://abc.xyz/investor>.

The Company has taken advantage of the exemption under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

18. Post balance sheet events

There were no significant events since the year end date or to the date of approval of the financial statements that require adjustments to or disclosure in the financial statements.