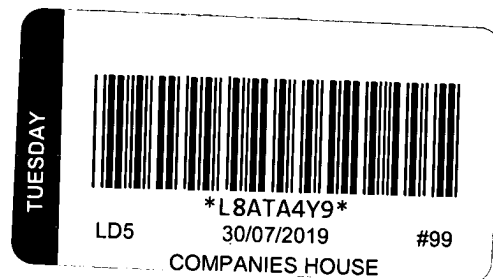


Registered Number 7386350

DEEPMIND TECHNOLOGIES LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018



DEEPMIND TECHNOLOGIES LIMITED

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DEEPMIND TECHNOLOGIES LIMITED

Strategic Report For the year ended 31 December 2018

The directors present their strategic report of DeepMind Technologies Limited (the "Company") for the year ended 31 December 2018.

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. Its mission is to solve intelligence by developing programs that can learn to address any complex problem without needing to be taught how and to use that technology to tackle some of our most pressing real-world challenges.

In November 2018, the Company announced its intention to distribute intellectual property assets to a Google group company in connection with its Streams application for clinicians. As of the date of signing these financial statements, the transfer has not yet been completed.

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

Turnover represents technical service fees from other group undertakings and increased from £54.4 million to £102.8 million in the year, an increase of £48.4 million.

Administration expenses increased from £334 million to £568 million, an increase of £234 million in the year. The increase mainly relates to a rise in technical infrastructure, staff costs and other related charges.

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 £470 million has been added to the shareholder's 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 Harlie
Director

Date: 25 July 2019

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report For the year ended 31 December 2018

The directors present their report of the Company for the year ended 31 December 2018.

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 (2017: £nil). The Company made academic donations and sponsorships of £13.5 million (2017: £8.2 million).

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 year is £103 million (2017: £54 million) representing technical service fees from other group undertakings.

Future developments

In November 2018, the Company announced its intention to distribute intellectual property assets to a Google group company in connection with its Streams application for clinicians. As of the date of signing these financial statements, the transfer has not yet been completed.

Results and dividends

The Company's loss for the financial year is £470 million (2017: £302 million). The directors do not propose the payment of a dividend for the year (2017: £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 a written assurance 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 2018

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 judgements 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 2018

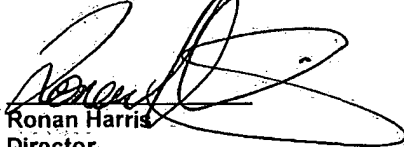
Disclosure of information to auditors

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: 25 July 2019



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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 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21, 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 2018 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/...



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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/...



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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.

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

Dublin

25 July 2019

DEEPMIND TECHNOLOGIES LIMITED

Statement of Comprehensive Income For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Turnover	5	102,802	54,423
Administration expenses		(568,273)	(333,853)
Operating loss	6	(465,471)	(279,430)
Interest receivable and similar income	7	2,127	-
Interest payable and similar expenses	8	(6,754)	(2,593)
Other (expenses) / income		(62)	129
Loss from ordinary activities before taxation		(470,160)	(281,894)
Tax on loss from ordinary activities	9	-	(20,311)
Loss for the financial year		(470,160)	(302,205)

Turnover arose solely from 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 27 form an integral part of the financial statements.

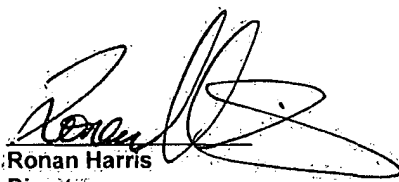
DEEPMIND TECHNOLOGIES LIMITED

Statement of Financial Position As at 31 December 2018

Registered number: 7386350

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	10	885	1,133
Intangible assets	11	1,157	1,157
Financial assets	12	765	765
		<u>2,807</u>	<u>3,055</u>
Current assets			
Debtors: amounts falling due within one year	13	108,762	99,174
Cash and cash equivalents		6,764	975
Total current assets		<u>115,526</u>	<u>100,149</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(1,042,964)	(123,939)
Net current liabilities		<u>(927,438)</u>	<u>(23,790)</u>
Total assets less current liabilities		<u>(924,631)</u>	<u>(20,735)</u>
Creditors: amounts falling due after one year	15	(1,583)	(435,319)
Net liabilities		<u>(926,214)</u>	<u>(456,054)</u>
Capital and reserves			
Called up share capital presented as equity	16	2	2
Share premium	16	41,491	41,491
Profit and loss account		(967,707)	(497,547)
Total shareholder's deficit		<u>(926,214)</u>	<u>(456,054)</u>

The financial statements on pages 9 to 11 and supporting notes to the financial statements on pages 12 to 27 were approved by the board of directors and were signed on its behalf by:



Ronan Harris
Director

Date: 25 July 2019

DEEPMIND TECHNOLOGIES LIMITED

Statement of Changes in Equity As at 31 December 2018

	Called up share capital	Share premium	Profit and loss account	Total shareholder's deficit
	£'000	£'000	£'000	£'000
Balance at 1 January 2017	2	41,491	(195,342)	(153,849)
Loss for the year	-	-	(302,205)	(302,205)
Balance at 31 December 2017	<u>2</u>	<u>41,491</u>	<u>(497,547)</u>	<u>(456,054)</u>
Balance at 1 January 2018	2	41,491	(497,547)	(456,054)
Loss for the year	-	-	(470,160)	(470,160)
Balance at 31 December 2018	<u>2</u>	<u>41,491</u>	<u>(967,707)</u>	<u>(926,214)</u>

The notes on pages 12 to 27 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

1. General information

DeepMind Technologies Limited (the "Company") is a private company limited by shares domiciled and incorporated in the United Kingdom. The Company's registered address is 5 New Street Square, London, EC4A 3TW. 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 ultimate holding company is Alphabet Inc., a company incorporated in the United States of America, while its immediate parent company is Google Ireland Holdings Unlimited Company, a company incorporated in the Republic of Ireland. Related companies in these financial statements refer to the group of companies under the Alphabet Inc. group.

The financial statements present the information about the Company as an individual entity and not about the group. The Company is exempt from preparing consolidated financial statements under the conditions laid down in Section 401 of the Companies Act 2006. The Company is included in the consolidated financial statements of Alphabet Inc., which are publicly available. Those accounts have been prepared in a manner equivalent to consolidated accounts drawn up in accordance with the provisions of the Seventh Directive (83/349EEC).

2. Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'), UK Generally Accepted Accounting Practice, and in accordance with the Companies Act 2006. The Company has used a true and fair view override in respect of the non-amortisation of goodwill (note 11).

3. Accounting policies

a) Basis of preparation of financial statements

The financial statements are prepared on a going concern basis under the historical cost convention.

The directors of the Company have received a written assurance 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.

The financial statements were prepared in pound sterling ("£") and all amounts have been rounded to the nearest thousand, unless otherwise indicated.

b) Financial Reporting Standard 101 - reduced disclosure exemptions

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.

In accordance with the exemptions available under the reduced disclosure Framework of FRS 101, the Company has availed of the following exemptions in accordance with paragraph 8 of FRS 101 in respect of:

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

b) Financial Reporting Standard 101 - reduced disclosure exemptions (continued)

- The requirements of paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 (a reconciliation of the number of shares outstanding at the beginning and at the end of the period),
 - paragraph 73(e) of IAS 16 "Property, Plant and Equipment",
 - Paragraph 118(e) of IAS 38 "Intangible Assets";
- The requirements of paragraphs 10(d), 16, 38A, 38A-D, 40A-D), 111 and 134 to 136 of IAS 1 "Presentation of Financial Statements";
- The requirements of IAS 7 "Statement of Cash Flows";
- The requirements of paragraphs 30 to 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (requirement to disclose information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more group members and the requirements of paragraph 17, 18A to disclose key management compensation;
- The requirements of 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;
- The requirements of IFRS 7 Financial Instruments Disclosures;
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

The preparation of financial statements in conformity with FRS 101 requires management to exercise judgement in the process of applying the Company's accounting policies and requires the use of accounting estimates and assumptions.

c) New and amended standards and interpretations

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) superseded IAS 39 *Financial Instruments: Recognition and Measurement* from 1 January 2018.

In accordance with the transitional provisions in IFRS 9, the Company has applied the modified retrospective transition method and has not restated prior year comparative figures. Results for the year ended 31 December 2018 are presented under IFRS 9, while results for the year ended 31 December 2017 are reported in accordance with IAS 39. Under the modified retrospective transition method, any cumulative adjustment from the adoption of IFRS 9 is recognised in opening retained loss as at 1 January 2018.

The nature and effect of key changes for classification and measurement, and impairment arising from the adoption of IFRS 9 are outlined in Note 19. The Company does not apply hedge accounting, therefore no further disclosures have been provided.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

d) Turnover

The Company recognises revenue when control of the promised services are transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

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

Revenue from these agreements 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.

e) Income tax

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

(i) Current 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.

(ii) Deferred tax

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 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 to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

f) Tangible assets

Tangible assets are initially recorded at cost. Subsequent to initial recognition, tangible assets are stated at cost less accumulated depreciation and impairment value, if any.

The cost of tangible assets includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of tangible assets if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the tangible assets.

Subsequent expenditure is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of standard performance of the asset before the expenditure was made, will flow to the Company, and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

Tangible assets are derecognised upon disposal or when no future economic benefits are expected from their use. On disposal of an item of tangible assets, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss.

Depreciation is provided on the straight line method over their estimated useful lives as follows:

Furniture and fixtures	15% straight line (2017: not applicable)
Network and production equipment	30% - 50% straight line (2017: 30%-50% straight line)
Construction in progress	No depreciation as assets are not in use

The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

g) Goodwill

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

The UK Companies Act 2006 requires goodwill to be reduced by provisions for depreciation on a systematic basis over 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 Companies Act. 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 purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Company's Cost Generating Units ("CGUs") that 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.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

h) Research and development

Research and development 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.

i) Financial fixed assets

Investments in subsidiaries are measured at cost less accumulated impairment losses.

j) Impairment of non-financial and financial assets measured at cost

The carrying amounts of the non-financial assets and financial assets measured at cost (tangible assets and financial fixed assets) are reviewed at each reporting date to determine whether there is any indication of impairment in value. If any such indication exists, the assets recoverable amount is estimated.

k) Financial assets

Financial assets are recognised in 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 ('FVTPL'), 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, except for those subsequently measured at fair value through other comprehensive income ('FVTOCI'), 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. For derecognition of financial assets measured at FVTOCI, any cumulative gain or loss is recognised in other comprehensive income.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Classification and measurement - IFRS 9

From 1 January 2018, the Company classifies its financial assets in the following measurement category:

- those to be measured at amortised cost.

A financial asset is measured at amortised cost if it has not been designated as FVTPL and meets both of the following conditions:

- it is held within a business model whose objective is to hold to collect contractual cash flow; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

k) Financial assets (continued)

Debt instruments - IFRS 9

Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. All the Company's debt instruments are measured at amortised cost as the assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

The Company's debt instruments consist of the following:

- Debtors with group undertakings
- Other debtors

Impairment of debt instruments measured at amortised cost - IFRS 9

For intercompany trade debtors the entity applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors.

To measure the expected credit losses, trade debtors have been grouped based on shared credit risk characteristics. The Company uses judgement in making assumptions around the risk of default and expected loss rates, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Management consider amounts due from group undertakings to have 'low credit risk' when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the short term.

Accounting policies applied before 1 January 2018 (IAS 39)

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.

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.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

k) Financial assets (continued)

(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.

l) Financial liabilities

Financial liabilities are recognised in 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 categories of financial liabilities:

- Financial liabilities held at amortised cost.

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

(i) Financial liabilities held at amortised cost

Financial liabilities at amortised cost are included in 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling due after more than one year' in the statement of financial position.

Creditors 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.

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

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

3. Accounting policies (continued)

l) Financial liabilities (continued)

Accounting policies applied before 1 January 2018 (IAS 39)

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.

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.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

n) 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.

4. Critical accounting estimates and judgements

In the process of applying the Company's accounting policies, management is of the opinion that there are no critical accounting estimates and judgements 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 2018

5. Turnover

The total revenue of the Company for the year has been primarily derived from its principal activity, the research and application of cutting edge machine learning, including the provision of technical services to other companies.

An analysis of turnover is not disclosed in line with Schedule 1, paragraph 68(5) of Statutory Instrument 2008 No.410.

6. Operating loss

Operating loss includes the following specific expenses / (income):

	2018 £'000	2017 £'000
Staff costs and other related costs	397,991	200,868
Depreciation of tangible assets	810	729
Foreign exchange loss/(gain)	165	(130)
Auditor's remuneration	37	32
Amortisation of intangible assets	-	1,157

Fees paid to the auditor relate to the statutory audit of the Company.

Staff and other costs are arrived at after recharging £398 million (2017: £201 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.

7. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest income derived from intercompany receivable	<u>2,127</u>	<u>-</u>

8. Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest expense on intercompany loans	<u>6,754</u>	<u>2,593</u>

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

9. Tax on loss from ordinary activities

	2018 £'000	2017 £'000
Current tax for the year	-	-
Adjustments in respect of prior years	-	(20,311)
Total current tax	-	(20,311)

Factors affecting tax charge / (credit) for the year

	2018 £'000	2017 £'000
Loss for the year - continuing activities	470,160	281,894
Corporation tax on loss at standard UK tax rate of 19% (2017: 19.2466%)	89,330	54,255
Effects of:		
Adjustments in respect of prior years	-	(20,311)
Expenses not deductible for tax purposes	(42,560)	(21,200)
Corporate interest tax restriction	(879)	(339)
Amounts not recognised	(45,868)	(32,716)
Other deferred tax not recognised	(23)	-
Tax charge / (credit) for the year	-	(20,311)

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 £100 million.

Factors affecting future tax charges

The UK corporation tax rate reduced from 20% to 19% on 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 2018

10. Tangible assets

	Network and Production Equipment £'000	Furniture and Fixtures £'000	Construction in progress £'000	Total £'000
At 1 January 2018				
Cost	1,836	13	99	1,948
Accumulated depreciation	(813)	(2)	-	(815)
Net book amount	1,023	11	99	1,133
Year ended 31 December 2018				
Opening net book amount	1,023	11	99	1,133
Additions	478	176	-	654
Depreciation	(797)	(13)	-	(810)
Transfers	-	-	(92)	(92)
Closing net book amount	704	174	7	885
At 31 December 2018				
Cost	2,314	189	7	2,510
Accumulated depreciation	(1,610)	(15)	-	(1,625)
Net book amount	704	174	7	885

11. Intangible assets

	Goodwill £'000	Total £'000
Cost		
At 1 January 2018 and at 31 December 2018	1,157	1,157
Amortisation and impairment		
At 1 January 2018 and 31 December 2018	-	-
Net book value		
At 31 December 2018	1,157	1,157
At 31 December 2017	1,157	1,157

During 2017, as part of the business combination (note 17), the Company recognised goodwill of £1.16 million.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

12. Financial assets

	2018 £'000	2017 £'000
Investments in subsidiary undertakings	<u>765</u>	<u>765</u>
	Investments in subsidiary undertaking	
		£'000
Cost		
At 1 January 2018		1,405
Acquisitions during the year		-
At 31 December 2018		1,405
Impairment		
At 1 January 2018		640
Impairment for the year		-
At 31 December 2018		640
Net book value		
At 31 December 2018		765
At 31 December 2017		765

Details of the Company's investments in subsidiaries are outlined below.

Company name	Type	Proportion held	Value invested £'000
Hark Health Solutions Limited	Acquisition of shares	100%	1,405

The subsidiary undertaking is currently in the process of being liquidated. No impairment was identified at 31 December 2018.

13. Debtors: amount falling due within one year

	2018 £'000	2017 £'000
Amounts owed by group undertakings	53,719	43,465
VAT receivable	28,941	41,605
Corporation tax receivable	25,971	13,935
Prepayments	131	-
Other debtors	-	169
	<u>108,762</u>	<u>99,174</u>

Amounts owed by other group undertakings are unsecured and repayable on demand.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2018

14. Creditors: amount falling due within one year

	2018 £'000	2017 £'000
Loans from group companies	883,044	-
Amounts owed to group undertakings	149,647	112,382
Accruals	5,832	6,461
Trade creditors	4,441	1,351
Other creditors	-	3,745
	<u>1,042,964</u>	<u>123,939</u>

The intercompany loans payable of £883 million are unsecured and interest bearing. At 31 December 2017, this loan was classified under "Creditors: amounts falling due after one year" (note 15) as it was falling due after more than one year.

The weighted average effective interest rate for loans and borrowings due to related companies for the year ended 31 December 2018 is 1.12% p.a. (2017: 0.91% p.a.).

Amounts owed to other group undertakings of £150 million are unsecured and repayable on demand.

Trade creditors approximate fair value due to their short term nature. Trade creditors unsecured and non-interest bearing and are normally settled on 30 - 90 day terms.

15. Creditors: amount falling due after one year

	2018 £'000	2017 £'000
Loans from group companies	-	433,072
Other creditors	1,583	2,247
	<u>1,583</u>	<u>435,319</u>

At 31 December 2018, the intercompany loan payable is classified under "Creditors: amounts falling due within one year" (note 14) as it is falling due within one year.

16. Capital and reserves

a) Share capital presented as equity

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid 16,406,358 ordinary shares of £0.0001 each	<u>2</u>	<u>2</u>

There were no movements in the Company's share capital during the year (2017: none).

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2018

16. Capital and reserves (continued)

b) Share premium

This reserve records premiums received by the Company which are in excess of the nominal value of the equity shares issue.

There were no movements in the Company's share premium reserve during the year (2017: none).

17. Business combinations

In August 2017, the Company acquired intellectual property assets for a cash consideration of £2.3 million. The transaction was accounted for as a business combination. The identifiable intangible assets were measured at fair value of £1.16 million. The goodwill of £1.16 million was generated from this transaction (note 11).

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
	£'000
Intellectual property	1,157
Total identifiable net assets at fair value (note 11)	<u>1,157</u>

The intellectual property was fully amortised as at 31 December 2017.

18. Parent undertaking and ultimate controlling party

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's ultimate holding company is Alphabet Inc., a company incorporated in the United States of America, while its immediate parent company is Google Ireland Holdings Unlimited Company, a company incorporated in the Republic of Ireland. Related companies in these financial statements refer to the group of companies under the Alphabet Inc. group.

All transactions recorded in the period are with related entities and are shown in notes 5, 6, 7, 8, 12, 13, 14, 15, 17. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of Alphabet Inc.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financials Statements For the year ended 31 December 2018

19. Transition to IFRS 9

This note explains the impact on classification and measurement and impairment as a result of the adoption of IFRS 9 *Financial Instruments*.

Classification and Measurement - Financial assets

With respect to the classification and measurement requirements for financial assets, the number of categories under IFRS 9 has been reduced, resulting in financial assets within the scope of IAS 39 now being subsequently measured at either amortised cost or fair value under IFRS 9.

Refer to the Company's accounting policies in Note 3 (k) for the classification and measurement criteria applied to financial assets under IAS 39 and IFRS 9.

The following table reflects the measurement categories under IAS 39 and the measurement categories under IFRS 9 for each financial asset held by the Company at 1 January 2018. There has been no change in the carrying amount of any of the Company's financial assets on adoption of IFRS 9.

Financial Assets	Note	Measurement category at 1 January 2018	
		IAS 39	IFRS 9
Receivables owed by group undertakings	13	Loans and receivables*	Amortised cost
Other receivables	13	Loans and receivables*	Amortised cost
Cash and cash equivalents		Loans and receivables*	Amortised cost

* Measured at amortised cost

All other financial assets continue to be measured on the same basis under IFRS 9 as was applied under IAS 39.

Classification and Measurement - Financial liabilities

The adoption of IFRS 9 has resulted in no impact on the classification and measurement of the Company's financial liabilities.

Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is required to be updated at each reporting date to reflect changes in credit risk since initial recognition.

Effects of applying the expected credit loss model to financial assets on initial application of IFRS 9

(i) Trade and other debtors (including intercompany debtors)

For trade debtors and other debtors (intercompany trade debtors), the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtor.

The Company applied the expected credit loss model to trade and other debtors (including intercompany trade debtors) at 1 January 2018, which has not resulted in a material impact to the Company.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the Financial Statements For the year ended 31 December 2018

19. Transition to IFRS 9 (continued)

(ii) Cash and cash equivalents

Cash and cash equivalents are held with banks and financial institution counterparties which are rated as investment grade by credit rating agencies. The maximum maturity of cash and cash equivalents is 3 months. The Company considers that its cash and cash equivalents have low risk based on the external credit ratings of its counterparties.

No impairment has arisen on transition to IFRS 9.

20. Post balance sheet events

No matter or circumstance has occurred subsequent to the end of the reporting period that has significantly affected the operations of the Company, the results of those operations or the state of affairs of the Company.

No dividends were proposed or declared after the reporting date but before the financial statements were authorised for issue.

21. Approval of the financial statements

The board of directors approved these financial statements for issue on 25 July 2019.