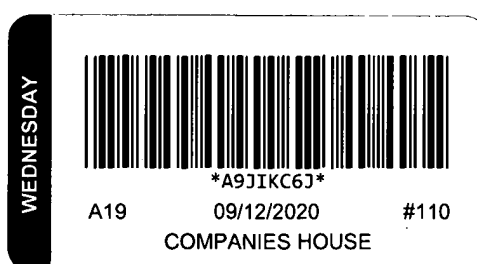


Registered Number 7386350

DEEPMIND TECHNOLOGIES LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019



DEEPMIND TECHNOLOGIES LIMITED

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DEEPMIND TECHNOLOGIES LIMITED

Strategic Report For the year ended 31 December 2019

The directors present their strategic report of DeepMind Technologies Limited (the "Company") for the year ended 31 December 2019.

Directors Duties under section 172 of the Companies Act

The directors who served during the year have acted in good faith and intended to promote the long-term success of the Company. The directors have considered the interest of the company's stakeholders, the consequences of any long-term decision made and the maintaining of business relationships with suppliers, customers and others whilst undertaking their activities during the year. In doing this the directors have had regard to the matters set out in s172(1)(a-f) of the Companies Act. The following paragraphs describe how the directors fulfil their duties:

Risk management and long term decision making

The Company utilises compliance and governance mechanisms to minimise risk. The Company's policies and processes effectively identify, evaluate, manage and mitigate the risks it's facing, and it continues to iterate and evolve its approach to risk management. For more details on risk management see page 3 of the Strategic report.

Our people

The Company's workforce is directly employed by other Alphabet group companies.

Business relationships

As is normal for companies of our size, authority for operational decision making is delegated to management on a day-to-day basis. Over the course of the year management provides relevant information on business relationships, research collaborations and compliance matters to the Alphabet board and that information is shared with the Company's directors.

Stakeholders

Given the number of stakeholders and the size of the wider Alphabet Group, stakeholder engagement takes place at both an operational and Alphabet Group level. The decisions made by the Company during the year ended 31 December 2019 have been made in accordance with our vision, key stakeholder engagement and with our business strategy at the core of what we do.

Reputation, community, and environment

The Company's 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 the most pressing real-world challenges with a positive future impact on our community and environment.

Review of the business

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

As part of a wider group reorganisation, the Company distributed intellectual property assets which had a nil book value to another group undertaking on 31 October 2019.

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

Turnover represents research and development remuneration from other group undertakings and increased from £103 million to £266 million in the year, an increase of £163 million.

DEEPMIND TECHNOLOGIES LIMITED

Strategic Report (continued) For the year ended 31 December 2019

Administration expenses increased from £568 million to £717 million, an increase of £149 million in the year. The increase mainly relates to a rise in technical infrastructure, staff costs and other related charges.

The Company's total assets increased from £118 million in 2018 to £390 million in 2019, an increase of £272 million, primarily related to an increase in debtors falling due within one year.

During the year, a related company, Google Ireland Holdings Unlimited Company, waived the repayment of intercompany loans and all accrued interest amounting to £1.1 billion.

The statement of comprehensive income and the statement of financial position are set out on pages 10 and 11 respectively. The loss for the financial year of £477 million (2018: £470 million) has been debited to the shareholder's funds.

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

Ronan Harris
Director
Date: 13 November 2020

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report For the year ended 31 December 2019

The directors present their directors' report of the Company for the year ended 31 December 2019.

Directors

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

Ronan Harris
Kenneth Yi

Results and dividends

The Company's loss for the financial year is £477 million (2018: £470 million). As part of a wider group reorganisation, the Company distributed intellectual property assets which had a nil book value to another group undertaking on 31 October 2019. The directors do not propose the payment of a dividend for the year (2018: £nil).

Research and development

The Company specialises in the research and application of cutting edge machine learning, including the provision of research and development services to other group undertakings. The revenue associated with those activities during the financial year is £266 million (2018: £103 million) representing research and development remuneration from other group undertakings.

Future developments

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

Foreign branches

The Company at no time during the year had any branches outside the United Kingdom.

Going concern

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 obligations to all creditors as they fall due. On this basis, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Political and charitable contributions

During the year the Company made no political donations (2018: £nil). The Company made academic donations and sponsorships of £6.3 million (2018: £13.5 million).

Stakeholder engagement

The directors understand the importance of fostering business relationships with suppliers, customers within the wider group and other key stakeholders of the company. The importance of these relationships has been considered in the principal decisions taken by the company during the period, which are referenced in the review of the business statement in the directors' report.

DEEPMIND TECHNOLOGIES LIMITED

Directors' Report (continued) For the year ended 31 December 2019

Events since year end date

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.

The global outbreak of the novel coronavirus (COVID-19) subsequent to the year end is leading to a global market disruption. Such an operating environment has the potential to have an adverse impact on the Company's operations and financial position. The future impact of the current economic situation is uncertain and difficult to predict.

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

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined in section 236 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 officers' liability insurance policy was maintained by the Alphabet Inc. group throughout the financial year and to the date of approval of the financial statements.

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 2019

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

Ronan Harris
Director
Date: 13 November 2020



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 2019, which comprise the Statement of Profit and Loss and Other 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 2019 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/...



**Building a better
working world**

**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 5, 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

16 November 2020

DEEPMIND TECHNOLOGIES LIMITED

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Turnover	5	265,542	102,802
Administration expenses		<u>(717,283)</u>	<u>(568,273)</u>
Operating loss		(451,741)	(465,471)
Interest receivable and similar income	7	819	2,127
Interest payable and similar expenses	8	(10,148)	(6,754)
Other income and expenses		<u>175</u>	<u>(62)</u>
Loss on ordinary activities before taxation	6	(460,895)	(470,160)
Tax on loss on ordinary activities	9	<u>(15,677)</u>	<u>-</u>
Loss for the financial year		<u>(476,572)</u>	<u>(470,160)</u>
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		<u>(476,572)</u>	<u>(470,160)</u>

Turnover and operating loss arose solely from continuing operations.

The notes on pages 13 to 27 form an integral part of these financial statements.

DEEPMIND TECHNOLOGIES LIMITED

STATEMENT OF FINANCIAL POSITION As at 31 December 2019

Registered number: 7386350

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	10	609	885
Intangible assets	11	1,157	1,157
Financial assets	12	-	765
		<u>1,766</u>	<u>2,807</u>
Current assets			
Debtors: amounts falling due within one year	13	324,556	108,762
Debtors: amounts falling due after one year	14	64,052	-
Cash and cash equivalents		-	6,764
Total current assets		<u>388,608</u>	<u>115,526</u>
Current liabilities			
Creditors: amounts falling due within one year	15	<u>(152,551)</u>	<u>(1,042,964)</u>
Net current assets / (liabilities)		<u>236,057</u>	<u>(927,438)</u>
Total assets less current liabilities		<u>237,823</u>	<u>(924,631)</u>
Creditors: amounts falling due after one year	16	<u>(761)</u>	<u>(1,583)</u>
Net assets / (liabilities)		<u>237,062</u>	<u>(926,214)</u>
Capital and reserves			
Called up share capital presented as equity	18	-	2
Share premium	18	-	41,491
Capital contribution reserve	18	1,114,848	-
Profit and loss account		<u>(877,786)</u>	<u>(967,707)</u>
Total shareholder's funds / (deficit)		<u>237,062</u>	<u>(926,214)</u>

The financial statements on pages 10 to 12 and supporting notes to the financial statements on pages 13 to 27 were approved by the board of directors and were signed on its behalf by:

Ronan Harris

Ronan Harris
Director

DEEPMIND TECHNOLOGIES LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2019

	Called up share capital	Share premium	Capital contribution reserve	Profit and loss account	Total shareholder's funds/ (deficit)
	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	2	41,491	-	(497,547)	(456,054)
Loss for the financial year	-	-	-	(470,160)	(470,160)
Balance at 31 December 2018	<u>2</u>	<u>41,491</u>	<u>-</u>	<u>(967,707)</u>	<u>(926,214)</u>
At 1 January 2019	2	41,491	-	(967,707)	(926,214)
Capital contribution	-	-	1,114,848	-	1,114,848
Issue of share capital	525	524,475	-	-	525,000
Share capital reduction	(527)	(565,966)	-	566,493	-
Loss for the financial year	-	-	-	(476,572)	(476,572)
Balance at 31 December 2019	<u>-</u>	<u>-</u>	<u>1,114,848</u>	<u>(877,786)</u>	<u>237,062</u>

The notes on pages 13 to 27 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 registration number is 7386350 and its registered address is 5 New Street Square, London, EC4A 3TW.

The financial statements of the Company for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors dated 13 November 2020.

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

The Company's ultimate holding company is Alphabet Inc., a company incorporated in the United States of America, while its immediate parent company is Deepmind Holdings Limited, a company incorporated in the United Kingdom. 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 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 obligations to all creditors as they fall due. On this basis, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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 FINANCIAL STATEMENTS (continued)

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 "Presentation of Financial Statements" (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, 38(a), 38(b)-(d), 40(a)-(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 paragraphs 17, 18(a) to disclose key management compensation;
- The requirements of paragraph 62, B64 (d), (e), (g), (h), (j) to (m), n(ii), o(ii), (p), 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 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 requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement";
- The requirements of paragraph 52, 58, 89 (second sentence), 90, 91 and 93 of IFRS 16 "Leases".

The remaining exemptions available under the FRS 101 Framework have not been availed of as they were not applicable to the Company at this time.

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.

New and amended standards and interpretations effective during 2019

Adoption of IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and supersedes the leasing requirements under IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise a lease liability and right-of-use asset for all leases with a term of more than 12 months (unless the underlying asset is of low value); and depreciate lease assets separately from recording interest on lease liabilities in the income statement.

The Company has adopted IFRS 16 on 1 January 2019. In accordance with the transition provisions of IFRS 16, the Company has chosen to adopt the modified retrospective approach and has not restated comparative information. The adoption of IFRS 16 has resulted in no impact for the Company and no financial statement line item has been affected at the adoption date 1 January 2019.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

c) Foreign currency

(i) Functional and presentation currency

The financial statements of the Company's operations are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in pound sterling ("£"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than the Company's functional currency ("foreign currency") are recorded at average month end rates of exchange which approximates the actual rates on the date of the transaction. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on translation of monetary items are included in profit or loss for the financial period.

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.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

e) Income tax (continued)

(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.

Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

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:

Network and production equipment	30% - 50% straight line (2018: 30%-50% straight line)
Furniture and fixtures	15% straight line (2018: 15% 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.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

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.

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.

An impairment in value is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment in value is recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

Value in use is the present value of estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life, discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit for which the future cash flow estimates have not been adjusted.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

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

An assessment is made at each reporting date as to whether there is any indication that an impairment in value recognised in prior periods for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

An impairment in value recognised in prior periods is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment in value was recognised. An impairment in value is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any depreciation, if no impairment in value had been recognised.

Reversals of impairment in value are recognised in profit or loss. After such a reversal, the depreciation is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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.

Debt instruments

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.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

k) Financial assets (continued)

A gain or loss on a debt instrument 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

The company participates in an intergroup cash pooling programme, which involves the transfer of cash amounts and bank overdrafts to an intergroup cash pooling entity. The amounts placed with the cash pooling entity are classified as "Amounts owed by group undertakings" (Note 13).

Impairment of debt instruments measured at amortised cost

For trade debtors, including 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.

For loans owed from group undertakings, the Company applies the general approach to providing for expected credit losses, as prescribed by IFRS 9. The general expected credit loss model under IFRS 9 requires the calculation of '12 month expected credit losses' (losses based on defaults which are possible within 12 months of the reporting date) for financial assets, unless the asset at the reporting date is not considered to be 'low credit risk' and is deemed to have had a 'significant increase in credit risk' since initial recognition, in which case lifetime expected credit losses should be recorded.

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.

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. Where a liability owed to a parent company is waived, the corresponding credit is recorded directly in equity as a capital contribution in accordance with IAS 1.

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.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Accounting policies (continued)

l) Financial liabilities (continued)

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.

Trade creditors and other creditors represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade creditors approximate fair value due to their short term nature. The amounts are unsecured and are generally paid within 30- 90 days of recognition.

m) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

n) Equity instruments issued

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are classified as equity and recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issuance of new shares are shown in the equity as a reduction from the proceeds.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short term, highly liquid investments with maturities of three months or less, that are subject to an insignificant risk of changes in value.

The company participates in an intergroup cash pooling programme, which involves the transfer of cash amounts and bank overdrafts to an intergroup cash pooling entity. The amounts placed with the cash pooling entity are classified as "Amounts owed by group undertakings" (Note 13) and measured at amortised cost.

4. Critical accounting estimates and judgements

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

Deferred tax assets are recognised for unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Judgment has been exercised in determining the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 research and development services to other group undertakings.

An analysis of turnover is not disclosed in line with Schedule 1 of Statutory Instrument 2008 No.410.

6. Loss on ordinary activities before taxation

Loss before on ordinary activities before taxation includes the following specific expenses:

	2019	2018
	£'000	£'000
Staff costs and other related costs	467,519	397,991
Impairment of financial assets	765	-
Depreciation of tangible assets	627	810
Auditor's remuneration	32	37
Foreign exchange loss	15	165
	<u> </u>	<u> </u>

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

Staff and other costs primarily relates to staff costs which have been recharged from other group companies.

The directors' remuneration for the year and previous year was borne by other group undertakings.

7. Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest income derived from intercompany loans	325	-
Interest income derived from intercompany receivable	494	2,127
	<u> </u>	<u> </u>
	819	2,127

8. Interest payable and similar expenses

	2019	2018
	£'000	£'000
Interest expense derived from intercompany loans	10,148	6,754
	<u> </u>	<u> </u>

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Tax on loss from ordinary activities

a) Income tax expense relating to loss

	2019 £'000	2018 £'000
Current tax		
Current tax charge for the year	79,729	-
Deferred Tax		
Origination and reversal of timing differences	(64,052)	-
Total income tax expense	15,677	-

b) Numerical reconciliation of income tax expense to tax payable

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	(460,895)	(470,160)
Tax on loss on ordinary activities at the standard rate of income tax of 19% (2018: 19%)	(87,570)	(89,330)
Effects of:		
Losses recognised	(144,040)	45,868
Other deferred tax recognised	(611)	23
Income not taxable	(153)	-
Expenses not deductible	909	42,560
Corporate interest restriction	1,772	879
Gain derived from intra group reorganisation	245,370	-
Total tax charge for the year	15,677	-

Changes in tax rate

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. This will impact the calculation of the current tax and deferred tax for future periods.

Unrecognised deferred tax asset

The Company has not recognised a deferred tax asset of £2.7 million (2018: £100 million) due to insufficient certainty that the deferred tax asset is recoverable.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible assets

	Network and Production Equipment £'000	Furniture and Fixtures £'000	Construction in progress £'000	Total £'000
Cost				
At 1 January 2019	2,314	189	7	2,510
Additions	11	421	13	445
Disposals	(1,615)	-	-	(1,615)
At 31 December 2019	710	610	20	1,340
Depreciation				
At 1 January 2019	(1,610)	(15)	-	(1,625)
Charge for year	(512)	(40)	-	(552)
Disposals	1,446	-	-	1,446
At 31 December 2019	(676)	(55)	-	(731)
Net book value				
At 31 December 2019	34	555	20	609
At 31 December 2018	704	174	7	885

During the year, the Company transferred tangible assets to another group undertaking at net book value.

11. Intangible assets

	Goodwill £'000	Total £'000
Cost		
At 1 January 2019 and at 31 December 2019	1,157	1,157
Amortisation and impairment		
At 1 January 2019 and 31 December 2019	-	-
Net book value		
At 31 December 2019	1,157	1,157
At 31 December 2018	1,157	1,157

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial assets

	2019 £'000	2018 £'000
Investments in subsidiary undertakings	-	765
	Investments in subsidiary undertaking	
		£'000
Cost		
At 1 January 2019		1,405
Acquisitions during the year		-
At 31 December 2019		1,405
Impairment		
At 1 January 2019		640
Impairment for the year		765
At 31 December 2019		1,405
Net book value		
At 31 December 2019		-
At 31 December 2018		765

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

Company name	Type	Proportion held
Hark Health Solutions Limited	Acquisition of shares	100%

Further to the decision to liquidate the subsidiary undertaking, management have deemed it appropriate to fully impair the carrying value of the investment.

13. Debtors: amounts falling due within one year

	2019 £'000	2018 £'000
Amounts owed by group undertakings	298,049	53,719
VAT receivable	26,300	28,941
Prepayments	207	131
Corporation tax receivable	-	25,971
	324,556	108,762

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Debtors: amounts falling due within one year (continued)

The 'amounts owed by group undertakings' include amounts that relate to the Company's participation in an intergroup cash pooling programme. This programme was initiated in 2019. The programme involves the transfer of cash amounts that the Company had previously held with external banks to an intergroup cash pooling entity, as part of the efficient management of cash balances within the wider group. Prior to this, the Company held its cash positions directly with an external banking provider, and as a result had classified these balances as cash and cash equivalents.

14. Debtors: amounts falling due after one year

	2019 £'000	2018 £'000
Deferred tax assets (Note 17)	64,052	-
	<u>64,052</u>	<u>-</u>

15. Creditors: amount falling due within one year

	2019 £'000	2018 £'000
Amounts owed to group undertakings	128,575	149,647
Corporation tax payable	11,643	-
Accruals	6,735	5,832
Trade creditors	5,570	4,441
Other taxes	28	-
Loans from group companies	-	883,044
	<u>152,551</u>	<u>1,042,964</u>

The weighted average effective interest rate for loans and borrowings due to related companies for the year ended 31 December 2019 is 1.15% p.a. (2018: 1.12% p.a.).

Amounts owed to group undertakings of £129 million (2018: £150 million) are unsecured, non-interest bearing and repayable on demand.

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

16. Creditors: amount falling due after one year

	2019 £'000	2018 £'000
Other creditors	<u>761</u>	<u>1,583</u>

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Deferred tax assets

The balance comprises temporary differences attributable to:

	2019 £'000	2018 £'000
Losses available for offsetting against future taxable income	63,434	-
Accelerated depreciation	618	-
Net deferred tax assets	64,052	-

Reflected in the statement of financial position as follows:

Deferred tax assets	64,052	-
Net deferred tax assets	64,052	-

	Losses carried forward £'000	Accelerated depreciation £'000	Total £'000
At 1 January 2019			
Credited to the:			
- statement of comprehensive income	63,434	618	64,052
- statement of other comprehensive income	-	-	-
- equity	-	-	-
At 31 December 2019	63,434	618	64,052

18. Capital and reserves

a) Share capital presented as equity

	2019 £'000	2018 £'000
Allocated, called up and fully paid		
1 (2018: 16,406,358) ordinary shares of £0.0001 each	-	2

During the year, 5,250,000,000 ordinary equity shares were issued to Google Ireland Holdings Unlimited Company for a total consideration of £525,000,000. The newly issued shares rank pari passu with the existing issued shares of the Company. £524,475,000 of this received consideration was recognised as share premium.

On 28 October 2019, the Company completed a share capital reduction, cancelling 5,266,406,357 existing shares with a par value of £0.0001. In addition, the full amount of its share premium account (£565,965,727) was transferred to the profit and loss account.

DEEPMIND TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Capital and reserves (continued)

	2019	2018
	Number	Number
Ordinary shares		
As at 1 January	16,406,358	16,406,358
Issued during the financial year	5,250,000,000	-
Cancelled during the financial year	<u>(5,266,406,357)</u>	<u>-</u>
As at 31 December	<u>1</u>	<u>16,406,358</u>

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.

b) Share premium

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

c) Capital contribution reserve

During the year, as part of a wider group reorganisation, a related company, Google Ireland Holdings Unlimited Company, waived an intercompany payable of £1,114,848,000 and the Company recorded a corresponding capital contribution.

19. Ultimately controlling party and related party transactions

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 <http://investor.google.com/>.

All transactions recorded in the period are with related entities and are shown in notes 5, 6, 7, 8, 10, 12, 13, 15, 18. 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.

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 13 November 2020.