

Registered Number 7386350

DEEPMIND TECHNOLOGIES LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016



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**Strategic Report
For the year ended 31 December 2016**

The Directors present their strategic report of Deepmind Technologies Limited (the 'Company') for the year ended 31 December 2016.

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.

In April 2016, the Company acquired the entire share capital of Hark Health Solutions Limited, a company incorporated in the United Kingdom, for cash consideration of £1.4 million. At 31 December 2016, the value of investment was impaired by £639,505.

During the year, the Company impaired patents and acquired technology amounting to £414,856.

The key financial and other performance indicators for the period from 1 January 2016 to 31 December 2016 were as follows:

Turnover increased from £nil to £40 million in the year, an increase of £40 million representing technical service fees from other group undertakings.

Administrative expenses increased from £54 million to £164 million, an increase of £110 million in the year. The increase relates to a rise in employment, payroll costs and related charges.

The statement of comprehensive income and the statement of financial position are set out on pages 8 and 9 respectively. The loss for the financial year of £94 million has been added to the shareholders' deficit.

Principal risks and uncertainties

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

By order of the board



Kenneth H. Yi

Director

Date: 26.09.2017

Directors' Report For the year ended 31 December 2016

The directors present their report of the Company for the year ended 31 December 2016.

Directors

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

Ronan Harris
Kenneth Yi
Daniel J Brunton (resigned 7 June 2016)

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 (31 December 2015: £nil) and made charitable donations and sponsorship of £307,578 (31 December 2015: £nil).

Research and development

The Company specialises in the research and application of cutting edge machine learning, including the provision of technical services to other companies. The revenue associated with those activities during the financial period is £40 million representing technical service fees from other group undertakings (31 December 2015: £nil).

Future developments

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

Results and dividends

The Company's loss for the financial period is £94 million (31 December 2015: £54 million). The directors do not propose the payment of a dividend for the year (31 December 2015: £nil).

Investment in subsidiary during the year

On 14 April 2016, the Company acquired 100% of the voting shares of Hark Health Solutions Limited, a company incorporated in the United Kingdom, for cash consideration of £1.4 million. Hark Health Solutions Limited is a business in the technology sector. At 31 December 2016, the value of investment was impaired by £639,505.

Going Concern

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

The directors of the Company have received written assurances from the intermediate parent undertaking, Google Inc., 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.

**Directors' Report (continued)
For the year ended 31 December 2016**

Events since year end date

There were adjusting events subsequent to year end which have been recognised in the financial statements. Those adjusting events have been appropriately adjusted in these Financial Statements and disclosed under note 7.

Except for the events mentioned above, there were no other significant events that require to be adjusted or to be disclosed that occurred after 31 December 2016.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company's sole shareholder was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions.

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

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

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

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

**Directors' Report (continued)
For the year ended 31 December 2016**

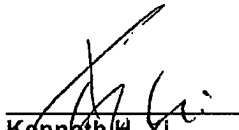
Disclosure of information to auditors

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



Kenneth H. Yi
Director
Date: 26.09.2017



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

We have audited the financial statements of Deepmind Technologies Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This 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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



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

Opinion on other matter 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.
- ▶ 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 light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where 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.

Tara Lillywhite (Senior statutory auditor)
for and on behalf of Ernst & Young, Statutory Auditor
Dublin

27.09.2017

DEEPMIND TECHNOLOGIES LIMITED

Statement of Comprehensive Income For the year ended 31 December 2016

	Notes	Year ended 31 Dec 2016 GBP	Year ended 31 Dec 2015 GBP
Turnover	3	40,283,597	-
Administrative expenses	4	<u>(163,811,997)</u>	<u>(54,162,443)</u>
Operating loss		(123,528,400)	(54,162,443)
Other expense	5	(1,054,361)	-
Other income		19,680	-
Interest receivable and similar income		6,008	-
Interest payable and similar charges	6	<u>(1,998,394)</u>	<u>(212,775)</u>
Loss from ordinary activities before taxation		(126,555,467)	(54,375,218)
Tax on loss from ordinary activities	7	32,609,848	-
Loss for the financial year		<u>(93,945,619)</u>	<u>(54,375,218)</u>

All amounts relate to continuing operations.

Other comprehensive income

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

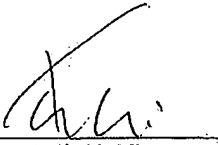
The notes on pages 11 to 22 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

**Statement of Financial Position
As at 31 December 2016**

	Notes	31 December 2016 GBP	31 December 2015 GBP
Non - current assets			
Tangible assets	8	465,350	-
Intangible assets	9	-	-
Financial Fixed Assets			
Investment in subsidiaries	10	765,095	-
		<u>1,230,445</u>	<u>-</u>
Current assets			
Debtors: amounts falling due within one year	11	51,547,318	23,700,518
Cash and cash equivalents		13,661,536	17,622,842
		<u>65,208,854</u>	<u>41,323,360</u>
Current Liabilities			
Creditors: amounts falling due within one year	12	(78,987,469)	(101,226,958)
Net current liabilities		<u>(13,778,615)</u>	<u>(59,903,598)</u>
Total assets less current liabilities			
Creditors: amounts falling due after one year	13	(12,548,170)	(59,903,598)
		<u>(141,301,047)</u>	<u>-</u>
Net liabilities		<u>(153,849,217)</u>	<u>(59,903,598)</u>
Capital and reserves			
Called up share capital	14	1,641	1,641
Share premium account		41,490,727	41,490,727
Retained earnings		(195,341,585)	(101,395,966)
Total shareholders' deficit		<u>(153,849,217)</u>	<u>(59,903,598)</u>

The financial statements on pages 8 to 10 and supporting notes to the financial statements on pages 11 to 22 were approved by the board of directors and were signed on its behalf by:



 Kenneth H. Yi
 Director
 Date: 26.09.2017.

DEEPMIND TECHNOLOGIES LIMITED

Statement of Changes in Equity As at 31 December 2016

	Share capital GBP	Share Premium GBP	Retained Earnings GBP	Total GBP
Balance at 1 January 2015	1,641	41,490,727	(47,020,748)	(5,528,380)
Loss for the period	-	-	(54,375,218)	(54,375,218)
Balance at 31 December 2015	1,641	41,490,727	(101,395,966)	(59,903,598)
Balance at 1 January 2016	1,641	41,490,727	(101,395,966)	(59,903,598)
Loss for the year	-	-	(93,945,619)	(93,945,619)
Balance at 31 December 2016	1,641	41,490,727	(195,341,585)	(153,849,217)

The notes on pages 11 to 22 form an integral part of the financial statements.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

1. General Information

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

2. Principal accounting policies and basis of preparation

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

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

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

Accounting policies

The significant accounting policies used in the preparation of the Company's financial statements are set out below. The Company transitioned from United Kingdom Generally Accepted Accounting Practice ("UK GAAP") to FRS 101 for all periods presented. This is the first year that the Company has presented its results under FRS 101. There were no adjustments for the period ended 31 December 2015 and for the period ended 31 December 2014 on transition to FRS 101.

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

- IAS 7 'Statement of Cash Flows'
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group
- Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation)
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraphs 30 to 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) (statement of cash flows);
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassified items in its financial statements);
 - 16 (statement of compliance with IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134 to 136 (capital management disclosures).

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

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

New and amended IFRS standards and interpretations

There are a number of changes to IFRS which became effective in 2016, however, they either did not have an effect on the financial statements or they are not currently relevant for the Company.

Title	Effective for annual periods beginning on or after
Amendments to IAS 7 - Cash Flow Statements (Disclosure Initiative)	1-Jan-17
Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrecognised Losses	1-Jan-17
IFRS 15 - Revenue from Contracts with Customers	1-Jan-18
IFRS 9 - Financial instruments	1-Jan-18

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and is expecting to early adopt for annual periods beginning on or after 1 January 2017, using a modified retrospective application.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments introduces new requirements for classification and measurement, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristic and the business model under which they are held. The impairment requirements in IFRS 9 are based on an expected credit loss model which replace incurred cost model under IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact of IFRS 9 and is considering the timing of the date of adoption.

Foreign currency translation

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

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

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

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

Turnover

Turnover represents the total invoiced value, excluding value added tax, of providing research and development services to other related group companies. The Company recognises revenue in accordance with underlying service agreements.

Turnover is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the turnover can be measured reliably.

Current and deferred tax

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

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

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

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

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

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

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 the deferred income taxes relate to the same taxable entity and the same taxation authority.

Research and development

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

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

Tangible assets - property, plant and equipment

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

The cost of property, plant and equipment includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised.

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

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

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

Furniture and Fixtures	- 20% straight line
Construction in progress	- No depreciation as assets are not in use

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

The residual values, useful life and depreciation method of property, plant and equipment are reviewed at each reporting date.

Intangible assets

Patents and developed technology are amortised on a straight-line basis over their estimated useful life of 1 year.

The Company tests the carrying value of its intangible assets at least after the full financial year following the initial recognition of intangible assets or more frequently if events or changes in circumstances indicate that this asset 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.

Investments

Investments are stated at the lower of cost or net realisable value. Net realisable value is defined as the amount at which an asset could be disposed of net of any direct selling cost. All investments are classified as current as they may be settled or sold within the Company's normal operating cycle.

Impairment of non-financial assets

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

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

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

Financial assets

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 de-recognition 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.

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.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities – Loans

Loans are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities ('Creditors – amounts falling due within one year').

The liability is initially recognised at its fair value equal to the present value of the future cash to be paid discounted using the prevailing market rate for a similar instrument with a similar credit rating. The liability is subsequently measured at amortised cost, with interest accrued using the effective interest rate method.

If the original advanced amount does not equate to the fair value on initial recognition, the difference is reflected as a capital contribution to the Company.

Interest expense is recognised using the effective interest method.

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

Critical accounting estimates and judgements

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

Fair value of non-current assets

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

Impairment of intangible assets and investments

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

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

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

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.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

3. Turnover

The turnover represents research and development fees from other group undertakings (US) amounting to £40,283,597.

4. Operating loss

Operating loss is arrived at after charging the following:

	Year ended 31 Dec 2016 GBP	Year ended 31 Dec 2015 GBP
Staff costs and other related costs	104,774,132	44,284,695
Management service fee	41,141,450	-
Depreciation	85,641	-
Amortization of intangible assets	777,904	-
Advertising and promotional expense	1,848,927	270,646
Legal fees	658,144	146,881
Audit	11,005	9,691
Professional services	3,873,872	630,077
Other administrative expenses	10,640,922	8,820,453
	<u>163,811,997</u>	<u>54,162,443</u>

Staff and other costs are arrived at after recharging £104 million (period ended 31 December 2015: £44 million) to 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.

5. Other expenses

		Year ended 31 Dec 2016 GBP	Year ended 31 Dec 2015 GBP
Impairment of Intangible assets	9	414,856	-
Impairment of investment in subsidiary	10	639,505	-
		<u>1,054,361</u>	-

6. Interest payable and similar charges

	Year ended 31 Dec 2016 GBP	Year ended 31 Dec 2015 GBP
Interest on intergroup loans	1,998,394	212,775
	<u>1,998,394</u>	<u>212,775</u>

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

7. Taxation

Current tax:

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
	GBP	GBP
Analysis of tax credit for the period		
Current tax credit on loss for the year	14,428,739	-
Adjustments in respect of prior years	18,181,109	-
Total current tax	32,609,848	-

Factors affecting tax credit for the year

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
	GBP	GBP
Loss for the period - continuing activities	126,555,467	54,375,218
Corporation tax on loss at the standard UK tax rate of 20% (31 December 2015: 20.25%)	25,311,094	11,009,119
Effects of:		
Prior year group relief debtor	17,713,473	-
Prior year R&D debtor	467,636	-
Expenses not deductible for tax purposes	(10,798,265)	(33,585)
Amounts not recognised	(84,090)	(10,975,534)
Tax credit for the period	32,609,848	-

Subsequent to year end the following events occurred which have been adjusted for in the financial statements:

- The Company surrendered its losses as group relief to another group undertaking; and
- The HMRC repaid the R&D tax credit relating to year ended 31 December 2013 of £467,636 in July 2017.

Factors affecting future tax charges

A change to the UK corporation tax rate was announced in the Budget on 16 March 2016 to reduce the rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

DEEPMIND TECHNOLOGIES LIMITED

**Notes to the financial statements
For the year ended 31 December 2016**

8. Tangible assets

	Information technology assets GBP	Construction in progress GBP	Total GBP
Cost			
As at 1 January 2016	-	-	-
Additions	481,387	69,604	550,991
As at 31 December 2016	481,387	69,604	550,991
Depreciation			
As at 1 January 2016	-	-	-
Charge for the year	85,641	-	85,641
As at 31 December 2016	85,641	-	85,641
Net book value			
At 31 December 2016	395,746	69,604	465,350

9. Intangible assets

	Patents and acquired technology GBP	Total GBP
Cost		
At 1 January 2016	-	-
Additions during year	1,192,760	1,192,760
At 31 December 2016	1,192,760	1,192,760
Amortisation and impairment		
At 1 January 2016	-	-
Amortisation for the year	(777,904)	(777,904)
Impairment during the year	(414,856)	(414,856)
At 31 December 2016	-	-
Net book value		
At 31 December 2016	-	-

During the year, the Company purchased technology for £1,192,760 of which £842,760 acquired from a related party being Hark Health Solutions Limited. The Company impaired patents and acquired technology amounting to £414,856. This impairment was based on an estimation of the recoverable amount at the reporting date.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

10. Investment in subsidiary

	At 31 Dec 2016	At 31 Dec 2015
	GBP	GBP
Investments in subsidiary undertakings	765,095	-
	<u>765,095</u>	<u>-</u>

a) Investments in subsidiary

	Investments in subsidiary undertaking	Total
	GBP	GBP
Cost		
At 1 January 2016	-	-
Additions during year (b)	1,404,600	1,404,600
At 31 December 2016	1,404,600	1,404,600
Impairment		
At 1 January 2016	-	-
Impairment for the year	(639,505)	(639,505)
At 31 December 2016	(639,505)	(639,505)
Net book value		
At 31 December 2016	765,095	765,095
At 31 December 2015	-	-

In April 2016, the Company acquired the entire share capital of Hark Health Solutions Limited, a company incorporated in the United Kingdom, for cash consideration of £1.4 million. At 31 December 2016, the value of investment was impaired by £639,505.

b) Additions during the year

Date acquired	Company Name	Type	Proportion held	Value Invested GBP
14 Apr 2016	Hark Health Solutions Limited	Acquisition of shares	100%	1,404,600

11. Debtors

	At 31 Dec 2016	At 31 Dec 2015
	GBP	GBP
Amounts owed by group undertakings	30,599,664	20,399,776
VAT Receivable	20,305,457	3,300,742
Corporation Tax Receivable	467,636	-
Other debtors	174,561	-
	<u>51,547,318</u>	<u>23,700,518</u>

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

12. Creditors: amount falling due within one year

	At 31 Dec 2016 GBP	At 31 Dec 2015 GBP
Amounts owed to group companies	77,701,261	19,995,471
Loan from Intercompany and Interest accrued	-	81,212,775
Trade creditors	722,575	-
Accruals	563,633	-
Other creditors	-	18,712
	<u>78,987,469</u>	<u>101,226,958</u>

The Loan carries interest equal to 12 month GBP LIBOR + 1% per annum i.e. 2.04% in 2015. All other amounts and creditors are non-interest bearing and are settled within the Company's normal operating cycle.

13. Creditors: amount falling due after one year

	At 31 Dec 2016 GBP	At 31 Dec 2015 GBP
Loan from Intercompany and Interest accrued	141,301,047	-
	<u>141,301,047</u>	<u>-</u>

The weighted average effective interest rate for loans and borrowings due from related companies for the year ended 31 December 2016 is 1.91% p.a. (2015: 2.04% p.a.). The loans are repayable no later than 15 November 2018.

Loan from Intercompany and Interest accrued of £81.2 million for the year ended 31 December 2015 previously classified under 'Creditors: amount falling due within one year'.

14. Called up share capital

	At 31 Dec 2016 GBP	At 31 Dec 2015 GBP
Allotted, called up and fully paid		
16,406,358 Ordinary shares of £0.0001 each	<u>1,641</u>	<u>1,641</u>

There were no movements in the Company's ordinary shares during the year (31 December 2015: none).

15. Contingent liabilities

From time to time matters may arise which could result in a contingent liability. The Company is of the position that there are no contingent liabilities, which require disclosure as at 31 December 2016.

DEEPMIND TECHNOLOGIES LIMITED

Notes to the financial statements For the year ended 31 December 2016

16. Business combinations

Acquisition of Hark Health Solutions Limited

On 14 April 2016, the Company acquired 100% of the voting shares of Hark Health Solutions Limited, a company incorporated in the United Kingdom, for cash consideration of £1.4 million. Hark Health Solutions Limited is a business in the technology sector.

Assets acquired and liabilities assumed

The fair values of the identifiable assets of Hark Health Solutions Limited as at the date of acquisition were as follows:

	Fair value recognised on acquisition GBP
Intellectual Property	842,760
Other assets	581,840
Total identifiable net assets at fair value (Note 10)	<u>1,404,600</u>

The cumulative value of the identified assets were recognised as an investment in subsidiary in accordance with IAS 27. The intellectual property was subsequently sold at fair value to the company. At 31 December 2016, the value of investment was impaired by £639,505 (note 10).

17. Parent undertaking and controlling party

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

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

The transactions recorded in the period with a related entity are shown in notes 3, 4, 6, 7, 9, 10, 11, 12, 13, 16. The Company has taken advantage of the exemption under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

18. Post balance sheet events

There were adjusting events subsequent to year end which have been recognised in the financial statements. Those adjusting events have been appropriately adjusted in the Financial Statements and disclosed under note 7.

Except for the events mentioned above, there were no other significant events that require to be adjusted or to be disclosed that occurred after 31 December 2016.