

THE CLOUD NETWORKS LIMITED

Financial Statements
For the year ended 30 June 2016

Registered number: 05141256



Directors and Officers

For the year ended 30 June 2016

Directors

The Cloud Networks Limited's (the "Company") present Directors and those who served during the year are as follows:

D N Rey

C Smith (appointed 7 November 2016)

A D Artz (appointed 26 January 2016; resigned 20 October 2016)

S Robson (resigned 26 January 2016)

Secretary

C J Taylor

Registered office

Grant Way

Isleworth

Middlesex

TW7 5QD

Auditor

Deloitte LLP

Chartered Accountants

London

United Kingdom

Strategic Report

Strategic Report

The Directors present their Strategic and Directors' report on the affairs of the Company, together with the financial statements and Auditor's Report for the year ended 30 June 2016.

The purpose of the Strategic Report is to inform members of the Company and help them assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the Company).

Business review and principal activities

The Company is a wholly-owned subsidiary of Sky UK Limited (the immediate parent company). The ultimate parent company is Sky plc ("Sky") and operates together with Sky's other subsidiaries, as part of the Sky Group ("the Group").

The principal activity of the Company is the operation of a public wireless broadband network in the UK, supporting data, internet and voice services. The network provides public WiFi access in over 20,000 venues across the UK.

The audited financial statements for the year ended 30 June 2016 are set out on pages 7 to 23. Profit for the year before tax was £16,981,000 (2015: £9,447,000). The prior year result was stated after the impairment of investments in subsidiaries of £8,652,000. Shareholders' equity at the balance sheet date was £29,820,000 (2015: £16,365,000). The Directors are satisfied with the performance of the Company in the year and look forward to continuing to develop the business in the foreseeable future.

The business has built upon previous investment in its leading edge technology, by extending its investment within the core platforms. This has supported continued enhancement of both available network bandwidth and core stability.

The continued investment and logistical support provided by Sky UK Limited has underpinned the performance during the last 12 months. We are actively developing new and innovative ways to monetise our network and provide unique functionality to our customers.

At the start of the year under review (29th June 2015), the Company sold its investments in The Cloud Networks Nordics A.B., The Cloud Networks Germany GmbH and The Cloud Networks Denmark ApS to Achim Möhrlein for consideration of £2,260,000.

Key performance indicators (KPIs)

The Group manages its operations on a divisional basis and the KPIs used are as reported in the Group Annual Report. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

Strategic Report (continued)

Principal risks and uncertainties

The Company's activities expose it to financial risks, namely credit risk and liquidity risk. The Directors do not believe the Company is exposed to significant cash flow risk, price risk, interest rate risk or foreign exchange risk.

Financial risk management objectives and policies

The use of financial derivatives is governed by the Group's treasury policy approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

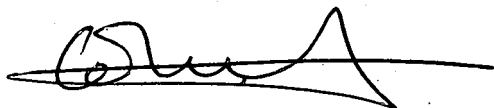
Credit risk

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Company relies on the Group Treasury function to manage its liquidity and ensure that sufficient funds are available for ongoing operations and future developments. The Group currently has access to an undrawn £1 billion revolving credit facility which is due to expire on 30 November 2021. The Company benefits from this liquidity through intra-group facilities and loans.

By Order of the Board,



C Smith

Director

Grant Way
Isleworth
Middlesex
TW7 5QD

14 November 2016

Directors' Report

Directors' Report

The Directors who served during the year are shown on page 1. No dividend was proposed for the year ended 30 June 2016 (2015: £nil).

The Company has chosen, in accordance with section 414C(11) of Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which otherwise would be required to be disclosed in the Directors' report.

Going concern

The Company's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The Strategic Report details the financial position of the Company, as well as the Company's objectives and policies, and details of its exposures to credit risk and liquidity risk.

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

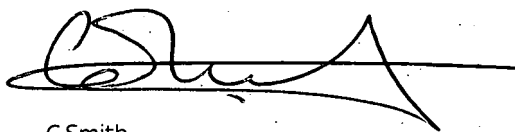
Auditor

In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director to make himself / herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them was approved by the board on 14 November 2016.

By Order of the Board,



C Smith

Director

Grant Way
Isleworth
Middlesex
TW7 5QD

14 November 2016

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. 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 FRS 101 "Reduced Disclosure Framework".

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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.

Auditor's Report

Independent Auditor's report to the members of The Cloud Networks Limited

We have audited the financial statements of The Cloud Networks Limited for the year ended 30 June 2016 which comprise the Profit and Loss Account, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 24. 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, 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 (APB'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 annual 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 30 June 2016 and of its profit 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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.



Paul Franek FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

17 November 2016

Profit and Loss Account

For the year ended 30 June 2016

	Note	Total 2016 £'000	Total 2015 £'000
Turnover	4	32,583	36,540
Cost of sales		(11,976)	(11,544)
Gross profit		20,607	24,996
Administrative expenses		(3,959)	(4,417)
Operating profit		16,648	20,579
Interest receivable and similar income	8	29	37
Other gains and losses	9	304	(11,169)
Profit on ordinary activities before tax		16,981	9,447
Tax on profit on ordinary activities	10	(3,526)	(573)
Profit for the financial year	5	13,455	8,874

The accompanying notes on pages 10 to 23 are an integral part of these financial statements.

For the years ended 30 June 2016 and 30 June 2015, the Company did not have any other items of Comprehensive Income. Accordingly, no separate Statement of Comprehensive Income is presented.

Turnover and operating profit are all derived from continuing operations.

Balance sheet

As at 30 June 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	11	2,774	1,858
Investments	12	-	2,260
Deferred tax asset	17	507	643
		3,281	4,761
Current assets			
Stocks	13	1,131	456
Debtors	14	49,309	31,037
Cash at bank and in hand		420	2,842
		50,860	34,335
Creditors: Amounts falling due within one year	15	(23,972)	(22,631)
Net current assets		26,888	11,704
Total assets less current liabilities		30,169	16,465
Creditors: Amounts falling due after more than one year		-	(42)
Provisions for liabilities	16	(349)	(58)
Net assets		29,820	16,365
Capital and reserves			
Called up share capital	18	8	8
Share premium account		35,433	35,433
Warrant reserves	19	60	60
Share-based payment reserve		2,517	2,517
Profit and loss account		(8,198)	(21,653)
		29,820	16,365

The financial statements of The Cloud Networks Limited, registered number 05141256 were approved by the board of directors on 14 November 2016 and were signed on its behalf by:

D N Rey

Director

14 November 2016

Statement of changes in equity
For the year ended 30 June 2016

	Share capital £'000	Share premium account £'000	Warrant reserve £'000	Share- based payment reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 July 2014	8	35,433	60	2,517	(30,527)	7,491
Profit for the period	-	-	-	-	8,874	8,874
Total comprehensive income for the period	-	-	-	-	8,874	8,874
Balance at 30 June 2015	8	35,433	60	2,517	(21,653)	16,365
Profit for the period	-	-	-	-	13,455	13,455
Total comprehensive income for the period	-	-	-	-	13,455	13,455
Balance at 30 June 2016	8	35,433	60	2,517	(8,198)	29,820

Notes to the financial statements

For the year ended 30 June 2016

1. General information

The Cloud Networks Limited (the Company) is a limited liability Company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Sky plc ("Sky"). The group accounts of Sky are available to the public and can be obtained as set out in note 24.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

2. Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 100) 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, in the year ended 30 June 2016 the Company has changed its accounting framework from UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have therefore been prepared in accordance with FRS 101.

This is the first year that the Company has presented its financial statements under FRS 101. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 30 June 2015 and the date of transition to FRS 101 was therefore 1 July 2014.

Reconciliation of equity

Note	At 1 July 2014 £'000	At 30 June 2015 £'000
Equity reported under previous UK GAAP	7,491	16,365
Adjustments	-	-
Equity reported under FRS 101	<u>7,491</u>	<u>16,365</u>

Reconciliation of total comprehensive income for the year ended 30 June 2015

Note	£'000
Total comprehensive income for the financial year under previous UK GAAP	8,874
Adjustments	-
Total comprehensive income for the financial year under FRS 101	<u>8,874</u>

This transition is not considered to have had a material effect on the financial statements.

Notes to the financial statements

For the year ended 30 June 2016

2. Significant accounting policies (continued)

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, and impairment of assets.

Where relevant, equivalent disclosures have been given in the group accounts of Sky. The group accounts of Sky are available to the public and can be obtained as set out in note 24.

The financial statements have been prepared on the historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities at the end of each reporting period as described in the accounting policies below.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2016, this date was 3 July 2016 this being a 53 week year (fiscal year 2015: 28 June 2015, 52 week year). For convenience purposes, the Company continues to date its financial statements as at 30 June. The Company has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Company.

The principal accounting policies adopted are set out below:

Going concern

The financial statements have been prepared using the going concern basis of accounting (as set out in the Directors' Report). After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. The Company reviews the carrying amount of its investment at balance sheet date to determine whether there is any indication of impairment. Impairment is indicated where the recoverable amount of the investment is less than its carrying amount.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue represents sales of wireless broadband services to retail customers, site owners and other service providers, including wholesale telecoms operators, net of value added tax. Retail products include sale of vouchers enabling access to the internet with payment via credit cards and indirectly through site owners. Site revenues include provision of internet access services using wireless technology together with vouchers sold on a wholesale basis. Service Provider customers pay for access to the Company's wireless broadband infrastructure in order to provide service to their own customers, on a per minute, per month or per year basis. Revenue from vouchers is recognised at the time of sale whilst any contracts for revenue over a period of time are spread evenly over that contract period. Other income is generated from set up fees for new contracts and is recognised at the date the site goes live and the set-up fee is billed to the customer.

Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Notes to the financial statements

For the year ended 30 June 2016

2. Significant accounting policies (continued)

Retirement benefit costs

The Company provides pensions to eligible employees through defined contribution schemes. The amount charged to the Profit and Loss account in the year represents the cost of contributions payable by the Company to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Company.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	5 years
Office equipment	5 years
Computer equipment	4 years
Fixtures and fittings	10 years
Network assets	3 to 7 years
Software licences	4 years

Notes to the financial statements

For the year ended 30 June 2016

2. Significant accounting policies (continued)

Tangible fixed assets (continued)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of tangible assets to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the Profit and Loss Account whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss for an individual asset or cash generating unit shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Stocks

Stock is stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial instruments

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Company assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the Balance Sheet when the Company's contractual rights to the cash flows expire or the Company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's Balance Sheet when the obligation specified in the contract is discharged, cancelled or expires.

Trade and Other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the Profit and Loss Account.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Company's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

Notes to the financial statements

For the year ended 30 June 2016

2. Significant accounting policies (continued)

Trade and Other Payables

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Company's best estimate of the transfer of benefits that will be required to settle the obligation as at the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

Accounting Standards, interpretations and amendments to existing standards that are not yet effective

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 July 2016 or later periods.

These new pronouncements are listed below:

- Amendments to IAS 1 'Disclosure Initiative' (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (effective 1 January 2016)*
- Annual Improvements 2012-2014 cycle (effective 1 July 2016)

*not yet endorsed for use in the EU.

3. Critical accounting judgements and key sources of estimation uncertainty

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if its selection or application materially affects the Company's financial position or results. The Directors are required to use their judgement in order to select and apply the Company's critical accounting policies. Below is a summary of the Company's critical accounting policies and details of the key areas of judgement that are exercised in their application.

Revenue (see note 4)

Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. When the Company sells installation or service in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Company recognises for delivered elements is limited to the cash received.

Tax, including deferred tax (see notes 10 and 17)

The Company's tax charge is the sum of the total current and deferred tax charges. The calculation of the Company's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.

The amounts recognised in the financial statements in respect of each matter are derived from the Company's best estimation and judgement, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Company would be required to make an adjustment in a subsequent period which could have a material impact on the Company's profit and loss and/or cash position.

Notes to the financial statements

For the year ended 30 June 2016

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Tax, including deferred tax (continued)

The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

Tangible Fixed Assets (see note 11)

The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the Statement of Comprehensive Income based on the useful economic life selected. This assessment requires estimation of the period over which the Company will benefit from the assets.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Company.

4. Turnover

An analysis of the Company's turnover is as follows:

	2016 £'000	2015 £'000
Continuing operations		
Rendering of services	32,583	36,540
Total turnover	32,583	36,540

Turnover arises from services provided in the United Kingdom.

5. Profit for the financial year

Profit for the year has been arrived at after charging/(crediting):

	2016 £'000	2015 £'000
Net foreign exchange (gains)/losses	(306)	8
Depreciation of tangible fixed assets (see note 11)	881	938
Loss on disposal of tangible fixed assets	10	4
Staff costs (see note 7)	4,913	5,266
Impairment loss recognised on amounts owed by subsidiaries	-	2,517
Impairment loss recognised on investment in subsidiaries	-	8,652
Operating leases – Land and Buildings	544	249
Stocks recognised as an expense	1,500	1,551

6. Auditor's remuneration

Fees payable to Deloitte and their associates for the audit of the Company's annual accounts were £12,000 (2015: £12,000). These were borne by another Group company in both the current and prior years. No amounts for other services have been paid to the auditor.

Notes to the financial statements

For the year ended 30 June 2016

7. Staff costs

The average monthly number of employees (including executive directors) was:

	2016	2015
	Number	Number
Transmission and Technology,	68	79
Directors	3	3
	71	5,262

Their aggregate remuneration comprised:

	2016	2015
	£'000	£'000
Wages and salaries	4,194	4,560
Social security costs	503	474
Other pension costs (see note 20)	216	232
	4,913	5,266

Disclosure of directors' remuneration is included in note 23.

Administrative services are provided by employees of other Group companies with no charge being made.

8. Interest receivable and similar income

	2016	2015
	£'000	£'000
Interest receivable:		
Intercompany interest receivable	29	37
Total interest receivable	29	37

For the year ended 30 June 2016 intercompany interest is receivable on a loan made to Sky Operational Finance Limited at an interest rate of 1.5%.

For the year ended 30 June 2015 intercompany interest was receivable on a loan made to The Cloud Networks Germany GmbH at an interest rate of 6 month Euribor + 0.75%.

Notes to the financial statements

For the year ended 30 June 2016

9. Other gains and losses

	2016 £'000	2015 £'000
Impairment of Investment in subsidiaries	-	(8,652)
Impairment of amounts owed by subsidiaries	-	(2,517)
Gain on revaluation of amounts owed by Group companies	304	-
	<u>304</u>	<u>(11,169)</u>

No other gains or losses have been recognised in respect of loans and receivables or held-to-maturity investments, other than as disclosed in note 8 and impairment losses recognised in respect of amounts owed by subsidiaries (see note 5).

10. Tax

	2016 £'000	2015 £'000
Corporation tax:		
UK Corporation tax	3,390	-
Foreign tax	-	-
	<u>3,390</u>	<u>-</u>
Deferred tax (note 17)	136	573
	<u>3,526</u>	<u>573</u>

Corporation tax is calculated at 20.0% (2015: 20.75%) of the estimated taxable profit for the year.

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2016 £'000	2015 £'000
Profit before tax	16,981	9,447
Tax at the UK corporation tax rate of 20.0% (2015: 20.75 %)	3,396	1,960
Tax effect of expenses that are not deductible in determining taxable profit	1	2,319
Group relief claimed for £nil consideration	-	(3,675)
Deferred tax asset recognised at enacted rate rather than blended rate	27	(24)
Adjustment in respect of prior years	102	(7)
Tax expense for the year	<u>3,526</u>	<u>573</u>

All current taxation in the current year relates to UK corporation tax.

Notes to the financial statements

For the year ended 30 June 2016

11. Tangible fixed assets

	Leasehold Improvements £'000	Office Equipment £'000	Computer Equipment £'000	Fixtures and Fittings £'000	Network Assets £000	Software Licences £'000	Total £'000
Cost							
At 1 July 2015	156	24	949	42	2,994	282	4,447
Additions	1	-	1,297	-	417	92	1,807
Disposals	-	-	(1)	-	(746)	-	(747)
At 30 June 2016	157	24	2,245	42	2,665	374	5,507
Accumulated depreciation							
At 1 July 2015	147	17	317	19	1,849	240	2,589
Charge for the year	2	3	231	4	599	42	881
Elimination on disposal	-	-	-	-	(737)	-	(737)
At 30 June 2016	149	20	548	23	1,711	282	2,733
Carrying amount							
At 30 June 2015	9	7	632	23	1,145	42	1,858
At 30 June 2016	8	4	1,697	19	954	92	2,774

Notes to the financial statements

For the year ended 30 June 2016

12. Fixed asset investments

Subsidiaries

	£'000
Cost	
At 1 July 2015	10,912
Disposals	(10,912)
At 30 June 2016	-
Provisions for impairment	
At 1 July 2015	8,652
Disposals	(8,652)
At 30 June 2016	-
Carrying amount	
At 30 June 2015	2,260
At 30 June 2016	-

At the start of the year under review (29th June 2015), the Company sold its investments in The Cloud Networks Nordics A.B., The Cloud Networks Germany GmbH and The Cloud Networks Denmark ApS to Achim Möhrlein for consideration of £2,260,000.

Details of the principal investments of the Company at the prior year end were as follows:

Name	Country of incorporation	Proportion of share held (%) of ordinary share capital	Principal activity
The Cloud Networks Nordics A.B.	Sweden	100%	Wireless Broadband
The Cloud Networks Germany GmbH	Germany	100%	Wireless Broadband
The Cloud Networks Denmark ApS	Denmark	100%	Wireless Broadband

13. Stock

	2016 £'000	2015 £'000
Consumables	1,131	456
	1,131	456

Stocks consist of consumables utilised during the installation of hardware at customer sites. There is no material difference between the balance sheet value of stocks and their replacement cost.

Notes to the financial statements

For the year ended 30 June 2016

14. Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	306	198
Amounts owed by Parent company	30,570	20,696
Amounts owed by group undertakings	17,040	8,939
Other debtors	239	218
Prepayments and accrued income	1,154	986
	49,309	31,037

There are amounts receivable from other Group companies totalling £17,040,000 (2015: £8,939,000) of which £14,975,000 (2015: £8,939,000) represents other receivables; these balances are non-interest bearing and repayable on demand.

On 29 June 2015 the Company entered into a loan with Sky Operational Finance Limited. The loan bears interest at a rate of 1.5% and is repayable on demand. As at 30 June 2016 the total amount outstanding was £2,065,000.

There are amounts receivable from the parent company totalling £30,570,000 (2015: £20,696,000). These balances are non-interest bearing and repayable on demand.

15. Creditors

	2016 £'000	2015 £'000
Amounts falling due within one year		
Trade creditors	(372)	(648)
Taxation and social security	(3,390)	-
Amounts owed to parent company	-	(6,694)
Amounts owed to group undertakings	(17,052)	(12,932)
Accruals	(2,890)	(2,293)
Deferred income	(268)	(64)
	(23,972)	(22,631)

Amounts owed to parent and other group companies are non-interest bearing and are repayable on demand.

Deferred income arises as a result of subscription income received in advance.

Notes to the financial statements

For the year ended 30 June 2016

16. Provisions

	Property Provision £'000
At 1 July 2015	(58)
Additional provision in the year	(291)
At 30 June 2016	<u>(349)</u>

The Company holds a provision at year end for costs in relation to the dilapidations and onerous lease of 4 Victoria Square. The timing of cash flows and final amount required to settle the potential liability are dependent on the condition of the property when the lease ends and therefore uncertain.

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Tax losses £'000	Short term timing differences £'000	Total £'000
At 1 July 2014	691	525	-	1,216
Charge/(credit) to profit or loss	(60)	(525)	12	(573)
At 1 July 2015	631	-	12	643
Charge/(credit) to profit or loss	(191)	-	55	(136)
At 30 June 2016	<u>440</u>	<u>-</u>	<u>12</u>	<u>507</u>

Deferred tax assets have been recognised at 30 June 2016 (and 30 June 2015) on the basis that management deem it probable that there will be suitable taxable profits against which these assets can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rates enacted or substantively enacted for the relevant periods of reversal are: 19% from 1 April 2017 and 18% from 1 April 2020 in the UK (2015: 20%).

The UK Government announced a reduction in the main rate of UK corporation tax to 17% from 1 April 2020. The reduction to 17% was not enacted at the balance sheet date and was not therefore reflected in the figures above. The impact of the future rate reduction will be accounted for to the extent that it is enacted at future balance sheet dates, however it is estimated that this will not have a material impact on the Company.

Notes to the financial statements

For the year ended 30 June 2016

18. Share capital

	2016 £	2015 £
Issued, fully paid and authorised: 30,583,988 ordinary shares of £0.00025 each	7,646	7,646
	<u>7,646</u>	<u>7,646</u>

The Company has one class of ordinary shares which carry no right to fixed income.

19. Warrant Reserve

Warrant Instrument

After the sale of the Company in February 2011, a number of existing options were exercised and/or surrendered as part of the process of the sale of the Company. Any remaining options and/or warrants lapsed shortly after completion of the sale. There are no further outstanding options and warrants in respect of the Company at the year end date.

20. Retirement benefit schemes

The Company operates defined contribution retirement benefit schemes for qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The total cost charged to income of £216,000 (2015: £232,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 30 June 2016 contributions of £nil (2015: £nil) due in respect of the current reporting period had not been paid over to the schemes and are included in accruals.

21. Operating lease arrangements

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Within one year	138	192
In the second to fifth years inclusive	-	138
After five years	-	-
	<u>138</u>	<u>330</u>

The Company's operating lease relates to the rental payments on 4 Victoria Square, which was first occupied in May 2009, and subsequently the lease was renewed in March 2012 with a break clause after 5 years. There are no restrictions imposed by the lease arrangement in respect of dividends, additional debt, or further leasing.

Notes to the financial statements

For the year ended 30 June 2016

22. Derivatives not included at fair value

	2016				2015			
	Asset		Liabilities		Asset		Liabilities	
	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Forward foreign exchange contracts	-	-	-	-	83	3,415	(2)	3,000

The forward foreign exchange contracts held at the previous balance sheet date were terminated on the sale of The Cloud Networks Germany GmbH (see note 12). There are no derivatives held at 30 June 2016.

23. Related parties

During the year the company has not entered into transactions with any related party outside the group in which its results are consolidated (see note 24).

The Directors did not receive any remuneration during the year in respect of services to the Company (2015: £nil).

24. Controlling party

In the opinion of the directors, the Company's ultimate parent Company and ultimate controlling party is Sky, a company incorporated in the United Kingdom and registered in England and Wales. The parent undertaking of the largest group, which includes the company and for which group accounts are prepared is Sky, a company incorporated in the United Kingdom and registered in England and Wales. The parent undertaking of the smallest such group is Sky, a company incorporated in the United Kingdom and registered in England and Wales. Copies of the group financial statements of Sky plc are available from the Company Secretary, Sky plc, Grant Way, Isleworth, Middlesex TW7 5QD. The immediate controlling party is Sky UK Limited.