

THE CLOUD NETWORKS LIMITED

Annual Report and Financial Statements
For the year ended 30 June 2018

Registered number: 05141256



Directors and Officers

For the year ended 30 June 2018

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

Secretary

C J Taylor

Registered office

Grant Way

Isleworth

Middlesex

TW7 5QD

United Kingdom

Auditor

Deloitte LLP

Statutory Auditor

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 2018.

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). As at 30 June 2018 the ultimate parent company was Sky plc (now renamed Sky Limited) ("Sky") and the company operated together with Sky's other subsidiaries as a part of the Sky group ("the Group"). On 9 October 2018 the offer by Comcast Bidco Limited, an indirect wholly-owned subsidiary of Comcast Corporation, to acquire the entire issued and to be issued share capital of Sky plc (now renamed Sky Limited) became wholly unconditional. As a result, and as of that date, the ultimate controlling party of the Company is now Comcast Corporation.

The Company's principal activity is the operation of a public wireless broadband network in the UK, supporting data, internet and voice services. The network provides public Wi-Fi access in over 20,000 venues across the UK. There have not been any significant changes in the Company's activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

The audited accounts for the year ended 30 June 2018 are set out on pages 8 to 22. The profit for the year before tax was £15,140,000 (2017: £17,226,000). Turnover has decreased to £28,858,000 (2017: £33,093,000) and operating expenses have reduced to £13,765,000 (2017: £16,011,000). The Directors do not recommend the payment of a dividend for the year ended 30 June 2018 (2017: £nil). The Balance Sheet shows that the Company's shareholder's equity position at the year end was £62,110,000 (2017: £47,020,000).

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.

Key performance indicators (KPIs)

The Group manages its operations on a divisional basis. 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

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 has access to a £3 billion revolving credit facility, which was undrawn at 30 June 2018. The facility is due to expire on 11 January 2024. The Company benefits from this liquidity through intra-group facilities and loans.

By Order of the Board,

A handwritten signature in black ink, appearing to be 'C Smith', followed by a long horizontal line extending to the right.

C Smith
Director

Grant Way
Isleworth
Middlesex
TW7 5QD
United Kingdom

15 March 2019

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 2018 (2017: £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 ought to have taken as a Director to make himself 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 15 March 2019.

By Order of the Board,



C Smith
Director

Grant Way
Isleworth
Middlesex
TW7 5QD
United Kingdom

15 March 2019

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 Financial Reporting Standard 102. 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 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.

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Cloud Networks Limited:

- give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Profit and Loss Account;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

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

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.


Jon Young (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

15th March 2019

Profit and Loss Account

For the year ended 30 June 2018

	Note	Total 2018 £'000	Total 2017 £'000
Turnover	2	28,858	33,093
Cost of sales		(12,271)	(13,525)
Gross profit		16,587	19,568
Administrative expenses		(1,494)	(2,486)
Operating profit		15,093	17,082
Interest receivable and similar income	6	33	33
Other gains	7	14	111
Profit before taxation	3	15,140	17,226
Tax on profit	8	(50)	(26)
Profit for the financial year		15,090	17,200

The accompanying notes are an integral part of this Profit and Loss Account.

For the years ended 30 June 2017 and 30 June 2018, the Company did not have any other items of Comprehensive Income:

All results relate to continuing operations.

Balance Sheet

As at 30 June 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	9	2,239	2,224
		<u>2,239</u>	<u>2,224</u>
Current assets			
Stocks	10	257	354
Debtors	11	89,963	69,174
Cash at bank and in hand		411	488
		<u>90,631</u>	<u>70,016</u>
Creditors: Amounts falling due within one year	12	(30,710)	(25,097)
Net current assets		<u>59,921</u>	<u>44,919</u>
Total assets less current liabilities		<u>62,160</u>	<u>47,143</u>
Provisions for liabilities	13	(50)	(123)
Net assets		<u>62,110</u>	<u>47,020</u>
Capital and reserves			
Called up share capital	14	8	8
Share premium account		35,433	35,433
Warrant reserves	15	60	60
Share-based payment reserve		2,517	2,517
Profit and loss account		24,092	9,002
		<u>62,110</u>	<u>47,020</u>

The accompanying notes are an integral part of this Balance Sheet.

The financial statements of The Cloud Networks Limited, registered number 05141256 were approved by the Board of Directors on 15 March 2019 and were signed on its behalf by:

D N Rey
Director

15 March 2019



Statement of Changes in Equity

For the year ended 30 June 2018

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Share- based payment reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
At 1 July 2016	8	35,433	60	2,517	(8,198)	29,820
Profit for the year	-	-	-	-	17,200	17,200
Total comprehensive income for the year	-	-	-	-	17,200	17,200
At 30 June 2017	8	35,433	60	2,517	9,002	47,020
Profit for the year	-	-	-	-	15,090	15,090
Total comprehensive income for the year	-	-	-	-	15,090	15,090
At 30 June 2018	8	35,433	60	2,517	24,092	62,110

Notes to the financial statements

For the year ended 30 June 2018

1. Accounting policies

The Cloud Networks Limited ("the Company") is a private limited liability company, limited by shares, incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is Grant Way, Isleworth, Middlesex, TW7 5QD, United Kingdom and registered number is 05141256.

a) Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standard 102 issued by the Financial Reporting Council, and the Companies Act 2006.

b) Basis of preparation

The financial statements have been prepared on a historical cost basis and in accordance with Financial Reporting Standard 102 issued by the Financial Reporting Council, a transition from the previous year when the financial statements were prepared under Financial Reporting Standard 101. The transition is not considered to have had any material effect on the financial statements. The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel. Where relevant, equivalent disclosures have been given in the group financial statements of Sky. The Group accounts of Sky are available to the public and can be obtained as set out in note 19.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2018, this date was 1 July 2018 this being a 52 week year (fiscal year 2017: 2 July 2017, 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.

c) 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.

d) Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the financial statements

For the year ended 30 June 2018

1. Accounting policies (continued)

e) Foreign currencies

The Company's functional currency and presentational currency is pounds sterling.

Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of assets and liabilities are included net in profit for the year.

f) 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.

g) Tax, including deferred tax

The Company's liability for current tax is based on taxable profits for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the Balance Sheet and the corresponding tax bases used in the computation of taxable profits.

Taxable temporary differences arising from goodwill and, except in a business combination, the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit, are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the Profit and Loss Account, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

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 tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

h) 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
Software licenses	4 years

Notes to the financial statements

For the year ended 30 June 2018

1. Accounting policies (continued)

h) 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.

i) Impairment of tangible 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.

j) 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. The amount recognised in the Profit and Loss Account is determined on a weighted average cost basis, in accordance with IAS 2 "Inventories".

k) Financial instruments

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. 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.

i. Debtors

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, if the effect of discounting is immaterial. 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.

Notes to the financial statements

For the year ended 30 June 2018

1. Accounting policies (continued)

k) Financial instruments (continued)

ii. 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.

iii. Creditors

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.

l) Provisions

Provisions are recognised when the Company has a probable, 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 of 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.

m) 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 2018. These new pronouncements are listed below. The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

- Amendments to IAS 40 'Investment Properties' (effective 1 January 2018)
- Amendments to IAS 28 'Investments in Associates and Joint Ventures – Long term interests (effective 1 January 2019)*
- Amendments to IAS 19 'Employment Benefits' – Plan amendment, Curtailment or Settlement (effective 1 January 2019)*

* not yet endorsed for use in the EU

n) 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, in the Directors' judgement, its selection or application materially affects the Company's financial position or results. The application of the Group's accounting policies also requires the use of estimates and assumptions that affect the Group's financial position or results.

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.

i) Revenue (see note 2)

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.

Notes to the financial statements

For the year ended 30 June 2018

1. Accounting policies (continued)

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

ii) Tax, including deferred tax (see note 8)

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.

Provisions 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.

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.

iii) Tangible Fixed Assets (see note 9)

The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the Profit and Loss account based on the useful economic life selected. This assessment requires estimation of the period over which requires an estimation of the period and profile over which the Company expects to consume the future economic benefits embodied in the assets. The Company reviews its useful economic lives on at least an annual basis.

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, for example, 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, where applicable.

Notes to the financial statements

For the year ended 30 June 2018

2. Turnover

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

	2018 £'000	2017 £'000
Continuing operations		
Rendering of services	28,858	33,093
Total turnover	28,858	33,093

Turnover arises from services provided in the United Kingdom.

3. Profit before taxation

Profit before tax is stated after (crediting)/charging:

	2018 £'000	2017 £'000
Net foreign exchange gains	(61)	(105)
Depreciation of tangible fixed assets (see note 9)	828	1,006
Loss on disposal of tangible fixed assets	(36)	(16)
Staff costs (see note 5)	3,277	3,660
Operating leases – Land and Buildings	-	228
Stocks recognised as an expense	1,872	2,558

4. Auditor's remuneration

Amounts paid to the auditor for the audit of the Company's annual accounts of £12,000 (2017: £12,000) were borne by another Group subsidiary in 2018 and 2017. No amounts for other services have been paid to the auditor.

Notes to the financial statements

For the year ended 30 June 2018

5. Staff costs

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	2,793	3,135
Social security costs	331	341
Pension costs (see note 16)	153	184
	<u>3,277</u>	<u>3,660</u>

The average monthly number of full-time equivalent persons (including executive directors) employed by the Group during the year was as follows:

	2018 Number	2017 Number
Transmission and Technology	49	58
Directors	2	3
	<u>51</u>	<u>61</u>

The Directors did not receive any remuneration during the year (2017: £nil) in respect of their services to the Company.

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

6. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable:		
Intercompany interest receivable	33	33
Total interest receivable	<u>33</u>	<u>33</u>

For the year ended 30 June 2018 intercompany interest is receivable on a loan made to Sky Operational Finance Limited at an interest rate of 1.5%.

7. Other gains

	2018 £'000	2017 £'000
Gain on revaluation of amounts owed by Group companies	14	111
	<u>14</u>	<u>111</u>

No other gains or losses have been recognised in respect of loans and receivables, other than as disclosed in note 6.

Notes to the financial statements

For the year ended 30 June 2018

8. Tax on profit

(a) Tax on profit on ordinary activities

	2018 £'000	2017 £'000
Corporation tax:		
UK Corporation tax	-	(7)
Foreign tax	-	-
	<u>-</u>	<u>(7)</u>
Deferred tax:		
Origination and reversal of temporary differences	58	62
Adjustment in respect of prior years	(2)	(82)
Adjustment in respect of change in tax rates	(6)	53
	<u>50</u>	<u>26</u>

The tax expense for the year is lower (2017: lower) than the expense that would have been charged using the rate of corporation tax in the UK of 19% (2017: 19.75%) applied to profit before tax. The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	15,140	17,226
Tax at the UK corporation tax rate of 19.00% (2017: 19.75 %)	2,877	3,402
Tax effect of expenses that are not deductible in determining taxable profit	2	1
Group relief claimed for £nil consideration	(2,821)	(3,342)
Deferred tax asset recognised at enacted rate rather than blended rate	(6)	54
Adjustment in respect of prior years	(2)	(89)
Total tax charge for the year	<u>50</u>	<u>26</u>

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

(b) Deferred tax

The deferred tax included in the Balance Sheet is as follows:

	2018 £'000	2017 £'000
Included in debtors (note 11)	425	475
Accelerated capital allowances	<u>425</u>	<u>475</u>

Notes to the financial statements

For the year ended 30 June 2018

8. Tax on profit (continued)

(b) Deferred tax (continued)

	2018 £'000
At 1 July 2017	475
Deferred tax in profit and loss account	(58)
Adjustment in respect of prior years	2
Adjustment in respect of change in tax rates	6
	<hr/>
At 30 June 2018	425

Deferred tax assets have been recognised at 30 June 2018 (and 30 June 2017) 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: 19.0% from 1 April 2017 and 17.0% from 1 April 2020 in the UK.

9. Tangible fixed assets

	Leasehold Improvements £'000	Office Equipment £'000	Computer Equipment & Network Assets £'000	Fixtures and Fittings £'000	Software Licences £'000	Total £'000
Cost						
At 1 July 2017	157	49	5,364	42	374	5,986
Additions	-	2	793	-	48	843
At 30 June 2018	157	51	6,157	42	422	6,829
Depreciation						
At 1 July 2017	151	25	3,248	27	311	3,762
Charge for the year	2	6	787	4	29	828
At 30 June 2018	153	31	4,035	31	340	4,590
Carrying amount						
At 30 June 2017	6	24	2,116	15	63	2,224
At 30 June 2018	4	20	2,122	11	82	2,239

Notes to the financial statements

For the year ended 30 June 2018

10. Stocks

	2018 £'000	2017 £'000
Consumables	257	354
	<u>257</u>	<u>354</u>

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.

11. Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade debtors	374	105
Taxation and social security	-	7
Amounts owed by Parent company	53,581	41,575
Amounts owed by group undertakings	34,614	25,445
Prepayments and accrued income	600	1,254
Deferred tax asset	425	475
Other debtors	369	313
	<u>89,963</u>	<u>69,174</u>

The directors consider that the carrying amount approximates the fair value.

Amounts due from other Group companies totalling £34,613,541 (2017: £25,445,017) of which £32,422,941 (2017: £23,268,399) represent other receivables; they are non-interest bearing and are 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 2018 the total amount outstanding was £2,190,600 (2017: £2,177,554).

There are amounts receivable from the parent company totalling £53,580,967 (2017: £41,574,943). These balances are non-interest bearing and repayable on demand.

12. Creditors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade creditors	(435)	(771)
Taxation and social security	(194)	(7)
Amounts owed to group undertakings	(25,689)	(21,401)
Accruals	(3,507)	(2,535)
Deferred income	(885)	(383)
	<u>(30,710)</u>	<u>(25,097)</u>

The directors consider that carrying amount approximates the fair value.

Amounts owed to 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 2018

13. Provisions

	At 1 July 2016 £'000	Provided during the year £'000	Utilised during the year £'000	At 30 June 2017 £'000	Provided during the year £'000	Utilised during the year £'000	At 30 June 2018 £'000
Current liability: Restructuring provision ⁽ⁱ⁾	-	(123)	-	(123)	-	73	(50)

(i) During the year end 30 June 2017, as part of a restructuring exercise the Company provided £123,000 for the expected costs. during the year ended 30 June 2018, the Company utilised £73,000 for the cost of the restructuring exercise undertaken.

14. Share capital

	2018 £	2017 £
Allotted, called-up and fully paid 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 carries equal voting rights and no contractual right to receive payment

15. 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.

16. 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 £153,000 (2017: £184,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 30 June 2018 contributions of £nil (2017: £nil) due in respect of the current reporting period had not been paid over to the schemes and are included in accruals.

Notes to the financial statements

For the year ended 30 June 2018

17. Contracted commitments

Future minimum expenditure contracted for but not recognised in the financial statements

	Less than one Year £'000	Between one and five years £'000	After five years £'000	Total at 30 June 2018 £'000
Property, plant and equipment	24	-	-	24

18. 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 19).

The Directors did not receive any remuneration during the year in respect of services to the Company (2017: £nil).

19. Ultimate parent undertaking

The company is a wholly-owned subsidiary undertaking of Sky UK Limited, a company incorporated in the United Kingdom and registered in England and Wales. As at 30 June 2018, the Company was ultimately controlled by Sky plc (now renamed Sky Limited) ("Sky") and operated together with Sky's other subsidiaries, as a part of the Group. As at 30th June 2018, Sky plc (now renamed Sky Limited) was the largest and smallest group of which the company was a member and for which group financial statements were prepared.

The consolidated financial statements of the Group are available to the public and may be obtained from the Company Secretary at the registered address, Sky Ltd, Grant Way, Isleworth, Middlesex, TW7 5QD.

20. Post Balance Sheet Event

On 9 October 2018 the offer by Comcast Bidco Limited, an indirect wholly-owned subsidiary of Comcast Corporation, to acquire the entire issued and to be issued share capital of Sky plc (now renamed Sky Limited) became wholly unconditional. As a result, and as of that date, the ultimate controlling party of the Company is now Comcast Corporation.