

# SKY HOME COMMUNICATIONS LIMITED

(Formerly Be Un Limited)

Annual report and financial statements  
For the period ended 30 June 2013

Registered number 05262862



## Directors and Officers

For the period ended 30 June 2013

### **Directors**

Sky Home Communications Limited's ("the Company's") present Directors and those who served during the period are as follows:

C R Jones (appointed 30 April 2013)  
C J Taylor (appointed 30 April 2013)  
S A Cowdry (resigned 30 April 2013)  
R Dunne (resigned 30 April 2013)  
R Harwood (resigned 30 April 2013)  
E Smith (resigned 30 April 2013)

### **Secretary**

C J Taylor (appointed 30 April 2013)

### **Registered office**

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

### **Auditor**

Deloitte LLP  
Chartered Accountants  
London  
United Kingdom

## Directors' Report

The Directors present their Annual Report on the affairs of the Company, together with the financial statements and Auditor's Report for the period ended 30 June 2013

### **Business review and principal activities**

The Company is a wholly-owned subsidiary of British Sky Broadcasting Limited ("BSkyB Ltd") and operates together with BSkyB Ltd's other subsidiaries as a part of British Sky Broadcasting Group plc ("BSkyB Group plc", "the Group")

The principal activity of the Company during the period was the provision of broadband internet services

On 30 April 2013 BSkyB Ltd acquired the Company as part of the sale of Telefónica Europe Plc's ("Telefónica Group") UK consumer broadband and fixed-line telephony business. Under the terms of the agreement, BSkyB Ltd has paid a consideration of £180,000,000 for 100% of the share capital of the Company. An additional contingent amount, not exceeding £20,000,000, may also be paid dependent upon the successful delivery and completion of the customer migration process.

As part of the pre-completion steps of the disposal, certain assets and liabilities of the home phone and broadband business operating under the O2 brand and forming part of the business of Telefónica UK Limited ("Telefónica"), the Company's former parent company, were acquired by the Company, for a consideration of £10,000,000. In addition, certain assets and liabilities were disposed of by the Company to Telefónica that were outside the sale perimeter to BSkyB Ltd, for a consideration of £25,400,000.

As part of pre-completion steps, all existing intercompany balances between the Company and the Telefónica Group were settled in cash. Subsequently, a dividend of £59,220,000 was paid to Telefónica as the shareholder of the Company. The amount paid being the remaining cash balance held in the Company following settlement of all necessary obligations before sale of the Company to BSkyB Ltd.

Since the acquisition date and post period end, the Group is migrating customer contracts from the Company to BSkyB Ltd, a process which is supported by Telefónica Group through a transitional services agreement ("TSA"). Additionally the Company has provided services to Telefónica Group through a reverse TSA. It is anticipated that this migration process will be completed in 2014. It is the Directors' current intention that the Company will continue to hold and operate network assets on behalf of the wider BSkyB Group, and the Directors expect the BSkyB Group to continue to support the Company's operations for the foreseeable future.

The audited accounts for the period ended 30 June 2013 are set out on pages 7 to 30. The profit for the period was £20,891,000 (2012 profit of £23,465,000). Revenue has decreased to £41,619,000 (2012 £82,753,000) due to the current accounting period being 6 months (2012 12 months). Operating expenses have decreased to £43,668,000 (2012 £52,289,000), though on a like-for-like basis have increased significantly due to incremental migration and integration costs being incurred by the Company as it transitions customers from the Telefónica Group to the BSkyB Group. These costs also included £15,831,000 of depreciation, amortisation and impairment costs.

The Directors do not recommend the payment of a further dividend for the period ended 30 June 2013 (2012 £nil). The Balance Sheet shows that the Company's shareholder's equity position at the year-end was £45,716,000 (2012 equity of £84,045,000).

The Company's accounting reference date has been changed from 31 December to 30 June to align with the rest of the BSkyB Group.

## Directors' Report (continued)

### **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.

### **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**

#### **Credit risk**

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

#### **Liquidity risk**

The Company relies on the BSKYB 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 £743 million revolving credit facility which is due to expire on 31 October 2018. The Company benefits from this liquidity through intra-group facilities and loans.

#### **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 Directors' 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.

#### **Directors**

The Directors who served during the period are shown on page 1.

## Directors' Report (continued)

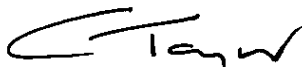
### Auditor

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

Under s516 and s519 of the Companies Act 2006, Ernst & Young LLP resigned as the auditor for the Company. Deloitte LLP has been appointed as the auditor of the Company.

By Order of the Board,



C J Taylor  
Company Secretary

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

28 March 2014

## 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

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 Sky Home Communications Limited**

We have audited the financial statements of Sky Home Communications Limited for the period ended 30 June 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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. 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 Company's affairs as at 30 June 2013 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in note 1 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.


### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the 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.



William Touche (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

28<sup>th</sup> March 2014

## Statement of Comprehensive Income

For the period ended 30 June 2013

		<b>Six months ended 30 June 2013</b>	Year ended 31 December 2012
	Notes	£'000	£'000
<b>Revenue</b>	2	<b>41,619</b>	82,753
Operating expense	3	<b>(43,668)</b>	(52,289)
<b>Operating (loss) profit</b>		<b>(2,049)</b>	30,464
Investment income	4	<b>146</b>	183
Net gain on transfer of assets to/from Telefónica	5	<b>482</b>	-
<b>(Loss) profit before tax</b>		<b>(1,421)</b>	30,647
Tax		<b>22,312</b>	(7,182)
<b>Profit for the period attributable to equity shareholder</b>		<b>20,891</b>	23,465

The accompanying notes are an integral part of this Statement of Comprehensive Income

For the period ended 30 June 2013 and the year ended 31 December 2012, the Company did not have any other items of Comprehensive Income

All results relate to continuing operations

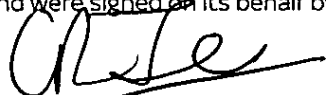


# Balance Sheet

As at 30 June 2013

		30 June 2013	31 December 2012 (as restated per note 1)
	Notes	£'000	£'000
<b>Non-current assets</b>			
Intangible assets	9	532	6,301
Property, plant and equipment	10	19,425	49,644
Deferred tax assets	11	22,658	-
		<b>42,615</b>	55,945
<b>Current assets</b>			
Inventories	12	520	-
Trade and other receivables	13	18,816	3,089
Cash and cash equivalents		56	56,951
		<b>19,392</b>	60,040
<b>Total assets</b>		<b>62,007</b>	115,985
<b>Current liabilities</b>			
Trade and other payables	14	16,291	29,811
		<b>16,291</b>	29,811
<b>Non-current liabilities</b>			
Deferred tax liabilities	11	-	2,129
		-	2,129
<b>Total liabilities</b>		<b>16,291</b>	31,940
Share capital	16	9,528	9,528
Share premium		15,272	15,272
Reserves		20,916	59,245
<b>Total equity attributable to equity shareholder</b>		<b>45,716</b>	84,045
<b>Total liabilities and shareholder's equity</b>		<b>62,007</b>	115,985

The accompanying notes are an integral part of this Balance Sheet. The financial statements of Sky Home Communications Limited, registered number 05262862 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf by



C R Jones

Director

28 March 2014

# Cash Flow Statement

For the period ended 30 June 2013

		<b>Six months ended 30 June 2013</b>	Year ended 31 December 2012
	Note	<b>£'000</b>	<b>£'000</b>
<b>Cash flows generated from operating activities</b>			
Cash (used in) generated from operations	17	<b>(12,720)</b>	24,554
<b>Net cash (used in) generated from operating activities</b>		<b>(12,720)</b>	24,554
<b>Cash flows generated from investing activities</b>			
Interest received		<b>146</b>	183
Proceeds on sale of certain assets/liabilities to Telefónica		<b>25,400</b>	-
Consideration for purchase of certain assets/liabilities from Telefónica		<b>(10,000)</b>	-
Purchase of property, plant and equipment		<b>(231)</b>	-
Purchase of intangible assets		<b>(270)</b>	-
<b>Net cash generated from investing activities</b>		<b>15,045</b>	183
<b>Cash flows used in financing activities</b>			
Dividends paid to Telefónica	21	<b>(59,220)</b>	-
<b>Net cash used in financing activities</b>		<b>(59,220)</b>	-
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(56,895)</b>	24,737
Cash and cash equivalents at the beginning of the year		<b>56,951</b>	32,214
<b>Cash and cash equivalents at the end of the year</b>		<b>56</b>	56,951

The accompanying notes are an integral part of this Cash Flow Statement. All results relate to continuing operations.

## Statement of Changes in Equity

For the period ended 30 June 2013

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total shareholder's equity £'000
<b>At 1 January 2012</b>	<b>9,528</b>	<b>15,272</b>	<b>35,780</b>	<b>60,580</b>
Profit for the year	-	-	23,465	23,465
<b>At 31 December 2012</b>	<b>9,528</b>	<b>15,272</b>	<b>59,245</b>	<b>84,045</b>
Profit for the period	-	-	20,891	20,891
Dividends paid to Telefónica	-	-	(59,220)	(59,220)
<b>At 30 June 2013</b>	<b>9,528</b>	<b>15,272</b>	<b>20,916</b>	<b>45,716</b>

## Notes to the financial statements

### 1. Accounting policies

Sky Home Communications Limited (the "Company") is a limited liability company incorporated in the United Kingdom, and registered in England and Wales

#### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006. In addition, the Company also complied with IFRS as issued by the International Accounting Standards Board ("IASB")

#### b) Basis of preparation

The financial statements have been prepared on a going concern basis (as set out in the Director's Report) and on a historical cost basis, except for the remeasurement to fair value of financial instruments as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period, none of which had a significant impact on the Company's results or financial position.

On acquisition, the accounting reference date for these financial statements was changed to 30 June. As a result of this change in accounting reference date, the financial statements have been prepared for a 6 month period from 1 January 2013 to 30 June 2013. The reason for this change is to align the Company with the rest of the BSkyB Group and for this reason the prior year ended 31 December 2012 is not entirely comparable.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2013, this date was 30 June 2013, this being a 52 week year (2012: 52 weeks). For convenience purposes, the Company dates 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.

During the period, the Directors' changed the Company's accounting policy in relation to broadband customer connection fees. In prior periods, these were capitalised as part of router costs in property, plant and equipment, in the current period these have been presented within intangible assets. The prior period property, plant and equipment, and intangible assets have been restated on this basis. Under IAS 1 a third balance sheet has not been presented, since this restatement of prior year to reflect the change in accounting policy does not have a material impact on the prior year profit or net assets. Please refer to note 9 and 10 for further details.

#### c) Intangible assets and property, plant and equipment

##### i. Intangible assets

Software is capitalised and measured at the incurred cost to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of between 2 and 6 years on a straight-line basis. Costs that are directly associated with production of identifiable unique software products controlled by the Company, which are expected to generate economic benefits over a period of more than one year, are recognised as intangible assets. Such computer software development costs recognised as intangible assets are amortised over their estimated useful lives not exceeding 6 years on a straight-line basis.

Other intangible assets, which are acquired by the Company separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### c) Intangible assets and property, plant and equipment (continued)

During the period, BSKyB Group changed the Company's accounting policy in relation to broadband customer connection fees. In prior periods, these were capitalised as part of router costs in property, plant and equipment (see inventory d) i)), in the current period, these have been presented within other intangible assets. Additionally in the period, the UEL of the connection fees were reassessed to be 6 months reflecting Sky's estimate of the average length of a customer's remaining contract period.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the Statement of Comprehensive Income through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between 1 and 25 years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy f).

#### ii. Property, plant and equipment ("PPE")

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy f), other than those items that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE. Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as PPE.

The cost of PPE, less estimated residual value, is depreciated in operating expense on a straight-line basis over its estimated useful life. Land, and assets that are not yet available for use, are not depreciated. Principal useful economic lives used for this purpose are:

Plant and equipment	2 to 20 years
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Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

To the extent that the financing for a qualifying asset is part of the Group's general borrowings, the interest cost to be capitalised is calculated based upon the weighted average cost of borrowing to the Group (excluding the interest on any borrowings specific to any qualifying assets). This is then applied to the expenditures on the asset.

All other borrowing costs are recognised in profit or loss in the period to which they relate.

#### d) Inventories

##### i. Routers and related equipment

Routers and related equipment are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the routers and related equipment in the hands of the customer, and are recognised through the operating expense line of the Statement of Comprehensive Income. The amount recognised in the Statement of Comprehensive Income is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

During the period the Company changed its accounting policy in relation to routers. Previously the Company accounted for routers as PPE. The Company now classifies routers as Inventory as described above.

##### ii Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the Statement of Comprehensive Income on a first-in-first-out basis.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### e) Financial assets and liabilities

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.

##### i. 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, 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 Statement of Comprehensive Income.

##### 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 where offset conditions are met.

##### iii. 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.

#### f) Impairment

At each balance sheet date, in accordance with IAS 36 'Impairment of Assets', the Company reviews the carrying amounts of all its assets excluding inventories (see accounting policy d), non-current assets classified as held for sale, financial assets (see accounting policy e) and deferred tax (see accounting policy j) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the Statement of Comprehensive Income 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.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### g) Revenue recognition

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities. The Company's main sources of revenue are recognised as follows:

- Retail subscription revenue, including subscriptions for broadband services, is recognised as the goods or services are provided, net of any discount given.
- Wholesale revenue relates to wholesale charges to group companies for the use of the broadband platform and is recognised when the service is rendered.

Revenue is measured at the fair value of the consideration received or receivable. When the Company sells a router, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. 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.

Revenue also includes wholesale charges to Telefónica Group companies for the use of the broadband platform. This revenue is recognised when the service is rendered.

#### h) Employee benefits

##### Wages, salaries and social security contributions

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the Statement of Comprehensive Income as the employees' services are rendered.

##### Pension Obligations

The Company provides pensions to eligible employees through defined contribution schemes. The amount charged to the Statement of Comprehensive Income in the period 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.

##### Termination Benefits

Termination benefits are recognised as a liability when, and only when, the Company has a demonstrable commitment to terminate the employment of an employee or group of employees before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

#### i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

The lease expense arising from operating leases is charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight-line basis over the lease term.

#### j) 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. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### j) Tax, including deferred tax (continued)

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 Statement of Comprehensive Income, 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.

#### k) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the year in which they are declared.

#### l) 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 our accounting periods beginning on or after 1 July 2013 or later periods. These new pronouncements are listed below:

- Amendments to IAS 36 "Impairment of Assets" (effective 1 January 2014)
- Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014)
- IFRS 9 "Financial Instruments" (effective 1 January 2015)

The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

#### m) Critical accounting policies and the use of judgement

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.

#### (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 a router, installation or service and a subscription 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

### 1. Accounting policies (continued)

#### m) Critical accounting policies and the use of judgement (continued)

##### (ii) 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.
- 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.

##### (iii) Intangible assets and property, plant and equipment (see notes 9 and 10)

- 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. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully.

##### (iv) Deferred tax (see note 11)

- 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.

## Notes to the financial statements

### 2. Revenue

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
Retail subscription	38,001	77,738
Wholesale subscription	2,078	5,015
Installation, hardware and service	177	-
Other	1,363	-
	<b>41,619</b>	<b>82,753</b>

The wholesale subscription activities pertained to services provided by the Company within the Telefónica Group, and have been transferred to another Telefonica Group company in the period as part of the pre-completion steps performed by the Company before sale to the BSkyB Group

### 3. Operating expense

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
Direct networks	18,762	24,590
Transmission, technology and fixed networks	19,142	23,120
Marketing	177	1,133
Subscriber management and supply chain	4,021	1,741
Administration	1,566	1,705
	<b>43,668</b>	<b>52,289</b>

Included within transmission, technology and fixed network costs is £6,696,000 of intangible asset and property, plant and equipment ("PPE") impairment costs incurred following the acquisition by BSkyB Limited ("BSkyB Ltd") during the period

### 4. Investment income and finance costs

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
<b>Investment income</b>		
Intercompany interest received <sup>(i)</sup>	146	183

(i) Intercompany interest received principally relates to a short-term loan of £60,000,000 issued by the Company to Telefónica Group on 2 April 2013 and repaid in full on 26 April 2013. The interest accrued at LIBOR + 2.05%

## Notes to the financial statements

### 5 Gain on transfer of assets in Group restructuring

As part of the pre-completion steps of the sale of the Company to BSkyB Ltd, certain assets and liabilities of the home phone and broadband business operating under the O2 brand and forming part of the business of Telefónica, the Company's former parent company, were acquired by the Company, for a consideration of £10,000,000

The assets received for the consideration included £7,371,000 of PPE and Intangibles at net book value and Working Capital of £3,104,000. This transaction gave rise to a gain of £475,000.

In addition, certain assets and liabilities were disposed by the Company to Telefónica that were outside the sale perimeter to BSkyB Ltd, for a consideration of £25,400,000. The assets disposed included PPE and Intangibles with a net book value of £24,311,000 and Working Capital of £1,082,000. This transaction gave rise to a gain of £7,000 on disposal.

These transactions gave rise to a total gain of £482,000, which has been presented below the Company's operating loss.

### 6. (Loss) profit before tax

	<b>Six months ended 30 June 2013 £'000</b>	<b>Year ended 31 December 2012 £ 000</b>
(Loss) profit before tax is stated after charging		
Depreciation and impairment of property, plant and equipment	<b>8,782</b>	16,008
Amortisation and impairment of intangible assets	<b>7,049</b>	1,698
Rentals on operating leases and similar arrangements	<b>20</b>	48

### Audit fees

The audit fee for the period was £70,000 (2012: £63,000) which was borne by another BSkyB Group company. No amounts for other services have been paid to the auditor in 2013 and 2012.

## Notes to the financial statements

### 7. Employee benefits

<b>a) Company employee benefits</b>	<b>Six months ended 30 June 2013 £'000</b>	<b>Year ended 31 December 2012 £'000</b>
Wages and salaries	<b>288</b>	982
Social security costs	<b>35</b>	121
Pension costs	<b>34</b>	107
	<b>357</b>	1,210

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Group during the period was as follows

	<b>Six months ended 30 June 2013 Number</b>	<b>Year ended 31 December 2012 Number</b>
Transmission and technology	<b>2</b>	3
Customer services, sales and marketing	<b>7</b>	10
Management and administration	<b>1</b>	2
	<b>10</b>	15

Key management and director's compensation is discussed in note 18

## Notes to the financial statements

### 8. Tax

#### a) Tax recognised in the Statement of Comprehensive Income

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
<b>Current tax expense</b>		
Current year	2,385	8,868
Adjustment in respect of prior years	90	-
<b>Total current tax charge</b>	<b>2,475</b>	<b>8,868</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(25,361)	(1,471)
Adjustment in respect of prior years	34	-
Adjustment in respect of change in tax rates	540	(215)
<b>Total deferred tax credit</b>	<b>(24,787)</b>	<b>(1,686)</b>
<b>Tax</b>	<b>(22,312)</b>	<b>7,182</b>

#### b) Reconciliation of effective tax rate

The tax credit for the period is higher (2012 lower) than the credit that would have been credited using the blended rate of corporation tax in the UK (23.5%) applied to loss before tax. The applicable or substantively enacted effective rate of UK corporation tax for the period was 23.5% (2012 24.5%). The differences are explained below.

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
(Loss) profit before tax	(1,421)	30,647
(Loss) profit before tax multiplied by blended rate of corporation tax in the UK of 23.5% (2012 24.5%)	(334)	7,508
Effects of		
Rebasing of customer contracts on acquisition of Company	(22,237)	-
Transfer of fixed assets	(1,902)	-
Effect of change in tax rate	540	(215)
UK to UK transfer pricing adjustment	-	(111)
Permanent Differences	1,100	-
Group relief surrendered	398	-
Adjustment in respect of prior years	123	-
<b>Tax</b>	<b>(22,312)</b>	<b>7,182</b>

All tax relates to UK corporation tax

## Notes to the financial statements

### 9. Intangible assets

	Software £'000	Other intangible assets £'000	Acquired intangible assets not yet available for use £'000	Total £'000
<b>Cost</b>				
At 1 January and 31 December 2012 - as previously reported	10,005	-	-	10,005
Reclassification from property, plant and equipment	-	2,439	3,501	5,940
<b>At 31 December 2012 - as restated</b>	<b>10,005</b>	<b>2,439</b>	<b>3,501</b>	<b>15,945</b>
Transfers	-	3,501	(3,501)	-
Additions	-	270	-	270
Transfers from Telefónica	-	9,004	-	9,004
Disposals to Telefónica	(10,005)	(1,687)	-	(11,692)
<b>At 30 June 2013</b>	<b>-</b>	<b>13,527</b>	<b>-</b>	<b>13,527</b>
<b>Amortisation</b>				
At 1 January 2012	7,256	-	-	7,256
Amortisation	1,698	-	-	1,698
At 31 December 2012 - as previously reported	8,954	-	-	8,954
Reclassification from property, plant and equipment	-	690	-	690
<b>At 31 December 2012 - as restated</b>	<b>8,954</b>	<b>690</b>	<b>-</b>	<b>9,644</b>
Amortisation	303	3,683	-	3,986
Impairment	-	3,063	-	3,063
Transfers from Telefonica	-	6,325	-	6,325
Disposals to Telefónica	(9,257)	(766)	-	(10,023)
<b>At 30 June 2013</b>	<b>-</b>	<b>12,995</b>	<b>-</b>	<b>12,995</b>
<b>Carrying amounts</b>				
At 1 January 2012	2,749	-	-	2,749
At 31 December 2012 - as restated	1,051	1,749	3,501	6,301
<b>At 30 June 2013</b>	<b>-</b>	<b>532</b>	<b>-</b>	<b>532</b>

The Company's intangible assets represents spend on software and other intangible assets represent connection fees for broadband customers. The disposals incurred in the period relate to the software assets transferred to another Telefónica Group company as part of the pre-completion steps before the Company was acquired by BSkyB Ltd. The £3,063,000 impairment incurred in the period reflects the Director's judgement that the acquired intangible assets not available for use no longer provided a probable economic benefit for the Company or the BSkyB Group post-acquisition which has been presented in Transmission, technology and fixed network costs within operating expenses. The £3,683,000 amortisation incurred in the period reflects a change in useful economic life of connection fees for broadband customers.

The estimated future amortisation charge on intangible assets with finite-lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Estimated amortisation charge	532	-	-	-	-

## Notes to the financial statements

### 10 Property, plant and equipment ("PPE")

	Plant and equipment £'000	Assets not yet available for use £'000	Total £'000
<b>Cost</b>			
At 1 January 2012	100,116	14,538	114,654
Additions	-	5,245	5,245
Transfers	12,084	(12,084)	-
At 31 December 2012 - as previously reported	112,200	7,699	119,899
Reclassification to intangible assets	(2,439)	(3,501)	(5,940)
<b>At 31 December 2012 - as restated</b>	<b>109,761</b>	<b>4,198</b>	<b>113,959</b>
Additions	231	-	231
Disposals to Telefónica	(46,717)	(400)	(47,117)
Transfers	3,798	(3,798)	-
<b>At 30 June 2013</b>	<b>67,073</b>	<b>-</b>	<b>67,073</b>
<b>Depreciation</b>			
At 1 January 2012	48,997	-	48,997
Depreciation	16,008	-	16,008
At 31 December 2012 - as previously reported	65,005	-	65,005
Reclassification to intangible assets	(690)	-	(690)
<b>At 31 December 2012 - as restated</b>	<b>64,315</b>	<b>-</b>	<b>64,315</b>
Depreciation	5,149	-	5,149
Impairment	3,633	-	3,633
Disposals to Telefónica	(25,449)	-	(25,449)
<b>At 30 June 2013</b>	<b>47,648</b>	<b>-</b>	<b>47,648</b>
<b>Carrying amounts</b>			
At 1 January 2012	51,119	14,538	65,657
At 31 December 2012 - as restated	45,446	4,198	49,644
<b>At 30 June 2013</b>	<b>19,425</b>	<b>-</b>	<b>19,425</b>

The disposals of PPE in the period relate to network assets and equipment assets transferred to another Telefonica Group company as part of the pre-completion steps for the Company before acquisition by BSkyB Ltd. During the period, the Directors changed the Company's accounting policy in relation to broadband customer connection fees. In prior periods, these were capitalised as part of router costs in PPE, in the current period these have been presented within other intangible assets. The current and prior period have been restated for this change in accounting policy. The 1 January 2012 comparative has not been restated retrospectively for this presentational change, on the grounds that under IAS 8, this has been concluded to not be material as the prior year profit and net assets are not impacted by the change in accounting policy. The £3,633,000 impairment in the period relates to router inventory deployed to customers pre-acquisition that have been concluded as not providing probable future economic benefit, consistent with BSkyB accounting policies for router inventory being recognised in cost of sales on deployment to the customer.

## Notes to the financial statements

### 11. Deferred tax

#### Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation	Short-term temporary differences	Total
	£'000	£'000	£'000
At 1 January 2012	(3,815)	-	(3,815)
Credit to income	1,471	-	1,471
Effect of change in tax rate	215	-	215
<b>At 31 December 2012</b>	<b>(2,129)</b>	<b>-</b>	<b>(2,129)</b>
Prior year adjustment	(34)	-	(34)
Credit to income	3,741	21,620	25,361
Effect of change in tax rate	(80)	(460)	(540)
<b>At 30 June 2013</b>	<b>1,498</b>	<b>21,160</b>	<b>22,658</b>

Deferred tax assets have been recognised at 30 June 2013 (2012 deferred tax liability) 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 rate enacted or substantively enacted for the relevant period of reversal is 23% as at 30 June 2013 (2012 23%).

The Government has indicated that it intends to introduce further reductions in the main tax rate, with the rate falling by 2% to 21% by 1 April 2014 and a further 1% to 20% on 1 April 2015. These further reductions to the tax rate, below the 23% rate, have not been substantively enacted at the balance sheet date and therefore not reflected in these financial statements.

### 12. Inventories

	30 June 2013	31 December 2012
	£'000	£'000
Routers and related equipment	520	-
<b>Total Inventory</b>	<b>520</b>	<b>-</b>

Consistent with the rest of the BSkyB Group, the Company recognises router inventory in cost of sales on deployment to the customer.

At 30 June 2013, 100% of routers and related equipment and other inventories are expected to be recognised in the Statement of Comprehensive Income within 12 months.



## Notes to the financial statements

### 13. Trade and other receivables

	30 June 2013 £'000	31 December 2012 £'000
Gross trade receivables	7,174	1,968
Less provision for impairment of receivables	(1,892)	(228)
<b>Net trade receivables</b>	<b>5,282</b>	<b>1,740</b>
Amounts receivable from former holding company <sup>(a)</sup>	-	668
Amounts receivable from immediate parent company <sup>(b)</sup>	11,505	-
Amounts receivable from other Group companies <sup>(c)</sup>	76	-
Prepayments	54	194
Accrued income	1,788	487
Other	111	-
<b>Total trade and other receivables</b>	<b>18,816</b>	<b>3,089</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value

The ageing of the Company's net trade receivables which are past due but not impaired is as follows

	30 June 2013 £'000	31 December 2012 £'000
Up to 30 days past due date	96	134
30 to 60 days past due date	14	44
60 to 120 days past due date	16	20
More than 120 days past due date	160	15
	<b>286</b>	<b>213</b>

#### Provisions for doubtful debts

	30 June 2013 £'000	31 December 2012 £'000
Balance at beginning of year	228	1,751
Amounts utilised	(75)	(1,703)
Income Statement charge	381	180
Transferred on Group reorganisation <sup>(i)</sup>	1,358	-
<b>Balance at end of year</b>	<b>1,892</b>	<b>228</b>

(i) This is the result of the reorganisation of the Telefonica Group, prior to the acquisition by BSkyB Ltd on 30 April 2013

## Notes to the financial statements

### 13. Trade and other receivables (continued)

#### a) Amounts receivable from the former holding company

In the prior year, amounts due from the former holding company totalling £668,000 represent trade receivables, they were non-interest bearing and are repayable on demand

#### b) Amounts receivable from the immediate parent company

Amounts due from BSkyB Ltd totalling £11,505,000 (2012 £nil) represent trade receivables, they are non-interest bearing and are repayable on demand

#### c) Amounts receivable from other Group companies

Amounts due from other Group companies totalling £76,000 (2012 £nil) represent trade receivables, they are non-interest bearing and are repayable on demand

### 14 Trade and other payables

	30 June 2013 £'000	31 December 2012 £'000
Trade payables	1,971	-
Amounts payable to former parent company <sup>(a)</sup>	-	20,791
Amounts payable to other Group companies <sup>(b)</sup>	219	-
VAT	1,590	1,008
Accruals	9,577	6,821
Deferred income	2,934	1,191
	16,291	29,811

The Directors consider that the carrying amount of trade and other payables approximates their fair values. Trade payables principally comprise amounts outstanding for ongoing trading costs and transitional services arrangements with Telefonica.

#### a) Amounts payable to former parent company

In the prior year, amounts due to the former holding company totalling £20,791,000 represent trade payables, they were non-interest bearing and are repayable on demand. This balance was settled as part of the pre-completion steps required as part of the acquisition of the Company by BSkyB Ltd in the period.

#### b) Amounts payable to other Group companies

Amounts due to other BSkyB Group companies totalling £219,000 represent trade payables, they are non-interest bearing and are repayable on demand.

## Notes to the financial statements

### 15. Financial instruments and financial risk management

#### Financial Instruments

##### (a) Carrying value and fair value

The Company's principal financial liabilities comprise trade and other payables. The Company has various financial assets such as trade and other receivables and cash and cash equivalents.

The accounting classification of each class of the Company's financial assets and financial liabilities is as follows:

	Loans and receivables	Other liabilities	Total carrying value	Total fair values
	£'000	£'000	£'000	£'000
<b>At 30 June 2013</b>				
Trade and other payables	-	(11,767)	(11,767)	(11,767)
Trade and other receivables	18,762	-	18,762	18,762
Cash and cash equivalents	56	-	56	56
<b>At 30 June 2012</b>				
Trade and other payables	-	(27,612)	(27,612)	(27,612)
Trade and other receivables	2,895	-	2,895	2,895
Cash and cash equivalents	56,591	-	56,591	56,591

The fair value of financial assets and financial liabilities held by the Company is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 30 June 2013 and 31 December 2012. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAA rated money market funds which can be withdrawn without notice.

##### (b) Capital Risk Management

The Group's Treasury function is responsible for raising finance for the Company's operations, together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of Treasury activity.

The capital structure of the Company consists of equity attributable to equity holders of the parent Company, comprising issued capital, reserves and retained earnings. Risk and treasury management is governed by British Sky Broadcasting Group plc's policies approved by its Board of Directors.

##### (c) Credit risk

The Company is exposed to default risk amounting to cash and cash equivalents of £56,000 (2012: £56,951,000).

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 13.

## Notes to the financial statements

### 15. Financial instruments and financial risk management (continued)

#### Liquidity risk

The Company's financial liabilities are shown above

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed may not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments, provisions and trade and other payables

	Less than 12 months	Between one and two years	Between two and five years	More than five years
	£'000	£'000	£'000	£'000
<b>At 30 June 2013</b>				
Trade and other payables	11,767	-	-	-
<b>At 30 June 2012</b>				
Trade and other payables	27,612	-	-	-

### 16. Share capital

	30 June 2013 £'000	31 December 2012 £'000
<b>Allotted, called-up and fully paid</b>		
9,528,124 (2012: 9,528,124) ordinary shares of £1 (2012: £1) each	9,528	9,528

The Company has one class of ordinary shares which carries equal voting rights and no contractual right to receive payment

## Notes to the financial statements

### 17. Notes to the Cash Flow Statement

#### Reconciliation of (loss) profit before tax to cash (used in) generated from operations

	Six months ended 30 June 2013 £'000	Year ended 31 December 2012 £'000
<b>(Loss) profit before tax</b>	<b>(1,421)</b>	30,647
Depreciation of property, plant and equipment	<b>5,149</b>	16,008
Impairment of property, plant and equipment	<b>3,633</b>	-
Amortisation of intangible assets	<b>3,986</b>	1,698
Impairment of intangible assets	<b>3,063</b>	-
Gain on transfer of assets to/from Telefónica	<b>(482)</b>	-
Net investment income	<b>(146)</b>	(183)
	<b>13,782</b>	48,170
(Increase) decrease in trade and other receivables	<b>(7,659)</b>	327
Decrease in inventories	<b>222</b>	-
Decrease in trade and other payables	<b>(19,065)</b>	(23,943)
<b>Cash (used in) generated from operations</b>	<b>(12,720)</b>	24,554

### 18 Key management and director's compensation

No emoluments or other benefits were paid to the Directors during the period ended 30 June 2013 (2012: £ nil). The Directors are employees of BSkyB Ltd and are remunerated for their services to the group as a whole. In 2012, the directors were employees of Telefónica UK Limited and are remunerated for their services to the Telefónica Group as a whole.

## Notes to the financial statements

### 19. Contracted commitments

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

	Year ended					After	Total at	Total at
	2013	2014	2015	2016	2017	5 years	30 June	30 June
	£'000	£'000	£'000	£'000	£'000	£'000	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transitional Service Agreement <sup>(i)</sup>	6,766	-	-	-	-	-	6,766	-

(i) The Company's contracted commitments relate to certain services provided by Telefónica as part of a Transitional Services agreement

### 20 Transactions with related parties

#### a) Key management

The Company has a related party relationship with the Directors of the Company. At 30 June 2013, there were 2 (2012: 4) members of key management, all of whom were Directors of the Company. Key management compensation is discussed in note 18.

#### b) Transactions with other Group companies

In the period the Company conducted business transactions with Telefónica Group companies

	Six months ended 30 June	Year ended 31 December
	2013	2012
	£'000	£'000
Supply of services by the Company	19,168	61,563
Purchases of goods / services by the Company	(7,656)	(27,345)

All related party transactions relate to regular trading activities of the Company on an arm's length basis. The decrease in transactions with other Group companies reflects the shorter accounting period and the Company being acquired by the BSkyB Group in the period.

The balances between the Company and BSkyB Group companies are described in note 13 and 14.

## Notes to the financial statements

### 21 Dividends

	<b>Six months ended 30 June 2013 £'000</b>	<b>Year ended 31 December 2012 £'000</b>
Dividends declared and paid during the period	<b>59,220</b>	-

As part of pre-completion, all existing intercompany balances between the Company and the Telefónica Group were settled in cash. Subsequently, a dividend of £59,220,000 was paid to Telefonica as the shareholder of the Company. The amount being the remaining cash balance held in the Company following settlement of all necessary obligations.

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies' articles of association and the Companies Act 2006.

### 22 Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of British Sky Broadcasting Limited, a Company incorporated in United Kingdom and registered in England and Wales. The Company is ultimately controlled by British Sky Broadcasting Group plc. The only group in which the results of the Company are consolidated is that headed by BSKyB.

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