



Arqiva Group Limited

Registered number 05254001

Regulatory Accounts

For the year ended 30 June 2017

**Produced in accordance with Section 15 of the
Undertakings given to the Competition Commission**

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Directors' report

These accounts are prepared in accordance with the requirements of certain undertakings published by the Competition Commission (now known as the Competition and Markets Authority) in September 2008 ("the Undertakings") following the merger between National Grid Wireless and Arqiva in 2008. Section 15 of the Undertakings requires that the merged group maintains appropriate accounting records to enable the preparation of annual statements of revenues, costs and assets employed for each of the Network Access ("NA") and Managed Transmission Services ("MTS") activities. These are known as the Regulatory Accounts ("RA").

The Directors of Arqiva Group Limited ("AGL") and its subsidiaries (together 'the Group') hereby submit the Regulatory Accounts for its NA and MTS activities as defined by the Undertakings, in respect of the year ended 30 June 2017.

Appendix 14 of the Undertakings sets out the proposed format of the RA, which has been further developed to be consistent with current regulatory requirements and common practice in regulatory reporting in comparable industries. These developments in form and presentation have been agreed with The Office of the Adjudicator - Broadcast Transmission Services ("OTABTS").

The RA are prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 4 October 2017 ("RAPM"). The allocation methodologies referred to in the RAPM have been updated and amended. This is to reflect improvements in allocation methodologies as a result of the availability of improved supporting data. None of these changes have been significant and no restatement to the comparative information for the year ended 30 June 2016 was required.

In accordance with the requirements of the Undertakings, the RA have been subject to independent audit.

Statement of Directors' responsibilities

The Directors are required to prepare Regulatory Accounts, in accordance with Section 15 of the Undertakings to the Competition Commission which Fairly Present the results and state of affairs of the regulatory business as defined by the Undertakings.

In accordance with Section 15.3 of the Undertakings, the Directors confirm:

- that the Regulatory Accounts are based on information that has been properly extracted from Arqiva Group Limited's (AGL's) accounting records;
- that the accounting principles, methodologies and rules as set out in the separate document entitled 'Arqiva Regulatory Accounting Principles and Methodologies' dated 4 October 2017 the "Framework") have been applied appropriately;
- the Regulatory Accounts have been properly prepared on the basis of consistent application of the appropriate Generally Accepted Accounting Practice across the Group, subject to the application of the Framework;
- that the Group's accounting records and relevant meeting minutes have been made available to PricewaterhouseCoopers LLP as required for the purposes of their audit.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. The maintenance and integrity of the OTABTS' website is the responsibility of the Adjudicator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the respective websites.

Legislation in the United Kingdom governing the preparation and dissemination of such Regulatory Accounts may differ from legislation in other jurisdictions.

By order of the Board



Paul Dollman
Director
Crawley Court, Crawley
Winchester, Hampshire
SO21 2QA
19 October 2017

Independent Auditors' report to the Adjudicator appointed by Ofcom (referred to as the "Adjudicator") and Arqiva Group Limited

Report on the Regulatory Accounts

Our opinion

In our opinion the Regulatory Accounts, defined below:

- are fairly presented in accordance with the Regulatory Accounting Principles and Methodologies dated 4 October 2017 ("RAPM"); and
- comply with the requirements of conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Group Limited (previously called Arqiva Broadcast Holdings Limited and also previously known as Macquarie UK Broadcast Holdings Limited), Macquarie MCG International Ltd, Macquarie European Infrastructure Fund II, Macquarie European Infrastructure Fund III and Macquarie Capital Funds (Europe) Ltd under the Enterprise Act 2002 dated 1 September 2008 as amended in accordance with condition 15.1 by agreement with the Adjudicator (the "Undertakings").

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

We have audited the Regulatory Accounts of Arqiva Group Limited and its subsidiaries (together the "Group" for the year ended 30 June 2017 on pages 8 to 14 which comprise:

The Income Statement, the Statement of Financial Position, the Reconciliation to Statutory Consolidated Income Statement Account, the Reconciliation to the Statutory Consolidated Statement of Financial Position and Notes to the Regulatory Accounts.

These Regulatory Accounts have been prepared in accordance with the RAPM agreed with the Adjudicator and accounting policies set out in the Basis of Preparation on page 14.

Basis of preparation

In forming our opinion on the Regulatory Accounts, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Conditions 15.1 and 15.2 of the Undertakings and the RAPM.

The Regulatory Accounts are separate from the statutory consolidated financial statements of the Group for the year ended 30 June 2017 ("the Statutory Accounts") and have not been prepared in accordance with IFRSs as adopted by the European Union or UK GAAP, as applicable, and the Act (and, where relevant, Article 4 of the IAS Regulation) or other relevant legislation.

Financial information other than that prepared on the basis of IFRSs as adopted by the European Union or UK GAAP, as applicable, does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Scope of the audit of the Regulatory Accounts

As explained in the RAPM and the "Basis of Preparation" on page 14, the Group has prepared the Regulatory Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Group maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the Group's statutory accounts.

PricewaterhouseCoopers LLP audited the Statutory Accounts of the Group for the year ended 30 June 2017 on which they expressed an unqualified audit opinion. In conducting our subsequent examination of the Regulatory Accounts, and in providing the opinion above, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audit of the Statutory Accounts.

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are fairly presented in accordance with the principles of the RAPM and comply with the requirements of Conditions 15.1 and 15.2 of the Undertakings and, on that basis, are free from material misstatement, whether caused by fraud or error. As the nature, form and content of Regulatory Accounts are determined by the Adjudicator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

We have used Jon Butler as an auditor's expert to assist us with our work in the area of Windloading. Jon Butler became an employee of OFCOM during the year working with Alan Watson. It has been confirmed to us that Jon Butler has had no involvement in the process of the reporting to OFCOM or in undertaking and evaluating the results of our work, and that Jon Butler considers himself to be independent. We have requested and been provided with a confirmation of Jon Butlers independence.

Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where, under Condition 15.6 of the Undertakings, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from operating locations not visited by us;
- the Regulatory Accounts are not in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts; and
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of the Adjudicator, the Directors and the Auditors

The Directors are responsible for the preparation of the Regulatory Accounts in accordance with conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Group Limited and its shareholders on 1 September 2008 ("the Undertakings") and the RAPM agreed with the Adjudicator. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK), except as stated in the 'Scope of the audit of the Regulatory Accounts' above, and having regard to the guidance contained in Technical Release 02/16 AAF 'Reporting to Regulators on Regulated Accounts' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

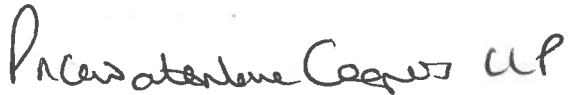
This report is made on terms that have been agreed solely between the Group, the Adjudicator and the Auditors in order to meet the requirements of the Undertakings. Our audit work has been undertaken so that we might state to the Group and the Adjudicator those matters that we have agreed to state to them in our report, in order (a) to assist the Group to meet its obligation under the Undertakings to procure such a report and (b) to facilitate the carrying out by the Adjudicator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Adjudicator, for our audit work, for this report or for the opinions we have formed.

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2017

The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Adjudicator's web site is the responsibility of the Adjudicator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton
19 October 2017

Income Statement

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	Year ended 30 June 2017	Year ended 30 June 2017	Year ended 30 June 2016	Year ended 30 June 2016
	£m	£m	£m	£m
TV revenue	139.8	38.9	136.8	38.1
Radio revenue	48.7	19.1	44.2	18.1
Total revenue	188.5	58.0	181.0	56.2
Rent and rates	(18.8)	-	(17.7)	-
Labour Cost of Sales and Maintenance	(10.1)	(11.8)	(10.3)	(12.0)
Cost of Sales	(28.9)	(11.8)	(28.0)	(12.0)
Operating expenses	(21.9)	(4.7)	(21.9)	(8.0)
Depreciation	(34.6)	(17.5)	(30.6)	(15.1)
Total operating expenses	(56.5)	(22.2)	(52.5)	(23.1)
Exceptional costs	(4.0)	(1.2)	(1.8)	(0.7)
Operating profit (after exceptional costs)	99.1	22.8	98.7	20.4

Statement of Financial Position

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	30 June 2017	30 June 2017	30 June 2016	30 June 2016
	£m	£m	£m	£m
Property, plant and equipment	622.5	178.9	656.5	195.3
Current Assets				
Trade and other receivables	36.3	13.6	48.9	13.1
Cash and cash equivalents	5.3	1.6	12.7	3.5
Total Current Assets	41.6	15.2	61.6	16.6
Trade and other payables	(23.6)	(7.3)	(29.4)	(9.1)
Provisions	(4.9)	(1.0)	(1.6)	-
Net Current Assets/(Liabilities)	13.1	6.9	30.6	7.5
Total Assets less Current Liabilities	635.6	185.8	687.1	202.8
Provisions	(42.1)	(2.7)	(39.1)	(2.7)
Capital Employed	593.5	183.1	648.0	200.1

These Regulatory Accounts were approved by the Board of Directors on 19 October 2017 and were signed on its behalf by:

Paul Dollman - Director

Reconciliation to Statutory Consolidated Income Statement for the year ended 30 June 2017

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2017	Year ended 30 June 2017	Year ended 30 June 2017	Year ended 30 June 2017
	£m	£m	£m	£m
Revenue	188.5	58.0	697.3	943.8
Cost of sales	(28.9)	(11.8)	(316.2)	(356.9)
Operating expenses	(21.9)	(4.7)	(93.5)	(120.1)
Depreciation	(34.6)	(17.5)	(89.5)	(141.6)
Operating profit	103.1	24.0	198.1	325.2
Exceptional items	(4.0)	(1.2)	(24.3)	(29.5)
Operating profit (after exceptionals)	99.1	22.8	173.8	295.7
Income statement items excluded for regulatory reporting purposes *				
Amortisation				(12.6)
Other income				1.1
Share of results of associates and joint ventures				0.3
Finance income				3.7
Finance costs				(582.1)
Other gains and losses				(112.5)
Other gains and losses (exceptional)				(20.6)
Loss before tax				(427.0)
Tax				(0.1)
Loss for the financial year				(427.1)

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2017.

Reconciliation to Statutory Consolidated Income Statement for the year ended 30 June 2016

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2016
	£m	£m	£m	£m
Revenue	181.0	56.2	647.5	884.7
Cost of sales	(28.0)	(12.0)	(303.8)	(343.8)
Operating expenses	(21.9)	(8.0)	(86.8)	(116.7)
Depreciation	(30.6)	(15.1)	(83.7)	(129.4)
Operating profit	100.5	21.1	173.2	294.8
Exceptional items	(1.8)	(0.7)	(11.1)	(13.6)
Operating profit (after exceptionals)	98.7	20.4	162.1	281.2
Income statement items excluded for regulatory reporting purposes *				
Amortisation				(10.4)
Share of results of associates and joint ventures				0.1
Other income				0.2
Finance income				1.3
Finance costs				(536.3)
Other gains and losses				(0.1)
Other gains and losses (exceptional)				14.4
Loss before tax				(249.6)
Tax				0.1
Loss for the financial year				(249.5)

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2016.

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2017

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2017 £m	30 June 2017 £m	30 June 2017 £m	30 June 2017 £m
Property, plant and equipment	622.5	178.9	968.8	1,770.2
Trade and other receivables (Note 1)	36.3	13.6	272.0	321.9
Cash and cash equivalents	5.3	1.6	39.6	46.5
Total Current Assets	41.6	15.2	311.6	368.4
Trade and other payables	(23.7)	(7.3)	(389.0)	(420.0)
Provisions	(4.9)	(1.0)	(12.9)	(18.8)
Net Current Assets/(Liabilities)	13.0	6.9	(90.3)	(70.4)
Total Assets less Current Liabilities	635.5	185.8	878.5	1,699.8
Provisions	(42.1)	(2.7)	(12.2)	(57.0)
Capital Employed	593.4	183.1	866.3	1,642.8
Assets/(Liabilities) excluded for regulatory reporting purposes *				
Intangible assets including goodwill				2,028.9
Interest in associates and joint ventures				5.1
Loans receivable from joint ventures (Note 1)				0.6
Amounts receivable from finance lease arrangements (Note 1)				2.2
Retirement benefits				7.1
Borrowings				(5,714.3)
Derivative financial instruments				(1,179.7)
Other payables (Note 2)				(186.4)
Total Capital Employed				(3,393.7)

Note 1 FY17 Group AGL accounts include Loans receivable from joint ventures of £0.6m and Amounts receivable from finance lease arrangements of £2.2m within Trade and other receivables which are excluded from the regulatory accounts.

Note 2 FY17 Group AGL accounts include other payables which comprises wholly of long term deferred income. This is outside of the scope of the regulatory accounts as per the Undertakings which only require disclosure of current liabilities.

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2017.

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2016

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2016 £m	30 June 2016 £m	30 June 2016 £m	30 June 2016 £m
Property, plant and equipment	656.5	195.3	917.0	1,768.8
Trade and other receivables (Note 1)	48.9	13.1	235.2	297.2
Cash and cash equivalents	12.7	3.5	53.3	69.5
Total Current Assets	61.6	16.6	288.5	366.7
Trade and other payables	(29.4)	(9.1)	(334.6)	(373.1)
Provisions	(1.6)	-	(6.4)	(8.0)
Net Current Assets/(Liabilities)	30.6	7.5	(52.5)	(14.4)
Total Assets less Current Liabilities	687.1	202.8	864.5	1,754.4
Provisions	(39.1)	(2.7)	(10.8)	(52.6)
Capital Employed	648.0	200.1	853.7	1,701.8
Assets/(Liabilities) excluded for regulatory reporting purposes *				
Intangible assets including goodwill				2,030.9
Interest in associates and joint ventures (Note 1)				4.8
Retirement benefits				7.4
Borrowings				(5,392.2)
Derivative financial instruments				(1,146.3)
Other payables (Note 2)				(172.1)
Total Capital Employed				(2,965.7)

Note 1 FY16 Group AGL accounts include Loans receivable from joint ventures of £4.8m and Amounts receivable from finance lease arrangements of £Nil within Trade and other receivables which are excluded from the regulatory accounts.

Note 2 FY16 Group AGL accounts include other payables which comprises wholly of long term deferred income. This is outside of the scope of the regulatory accounts as per the Undertakings which only require disclosure of current liabilities.

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2016.

Notes to the Regulatory Accounts

1 Principal accounting policies

(a) Basis of preparation

The reporting requirements set out in the Undertakings differ from the way in which AGL is organised for management and statutory reporting purposes. As such, the RA are derived from the IFRS Accounting System used to prepare the consolidated AGL statutory accounts, which includes all of the Group's businesses, with the reporting requirements of the Undertakings set out in the RAPM (dated 4 October 2017) applied to these account balances.

These regulatory accounts for the year ended 30 June 2017 have been prepared in accordance with IFRS.

The RA analyse AGL's activities into three core categories: 'Network Access', 'Managed Transmission Services' and 'Other'. AGL maintains its accounting records in a manner which enables revenues, costs, assets and liabilities to be attributed either directly or indirectly to the Network Access and Managed Transmission Services, in accordance with the RAPM.

The revenues, costs, assets and liabilities for the 'Other' category are arrived at by deducting the total of the Network Access and Managed Transmission Services from the total consolidated balances of AGL and therefore represent the remainder of the Group's business.