



Arqiva Broadcast Holdings Limited

Registered number 05254001

Regulatory Accounts

For the year ended 30 June 2014

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

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2014

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Directors' report

These accounts are prepared in accordance with the requirements of certain undertakings of the Competition Commission ("the Undertakings") following the merger between National Grid Wireless and Arqiva in 2008. Section 15 of the Undertakings requires that the merged group maintains' maintain appropriate accounting records to enable them to prepare annual statements of revenues, costs and assets employed for each of the Managed Transmission Services (MTS) and Network Access (NA) activities. These accounts, which are prepared on a Historic Cost Basis, are referred to as the Regulatory Accounts (RA).

The Directors of Arqiva Broadcast Holdings Limited (ABHL) and its subsidiaries (together 'the Group') submit the following Regulatory Accounts for its NA and MTS activities as defined by the Undertakings, in respect of the year ended 30 June 2014.

The Group is the sole owner and operator of the UK's nationwide terrestrial TV infrastructure and the major owner and operator of the UK's radio infrastructure. The Group's activities have been key to the technological evolution from analogue to digital based services and are critical to all terrestrial TV and radio broadcasters.

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 in presentation have been agreed with The Office of the Adjudicator - Broadcast Transmission Services (OTABTS) in prior years.

The terms of the Undertakings require that the RA be prepared and audited on a Fairly Presents (FP) basis. This takes account of key regulatory reporting principles such as Cost Causality. At the time that the Undertakings were agreed it was recognised that the Group did not have sufficient maturity of understanding, systems or processes to prepare RA on this basis. Accordingly it was agreed with OTABTS that the Group would initially prepare RA on a properly prepared (PP) basis and would work towards a FP basis of preparation and opinion.

The published RA for the year ended 30 June 2013 (FY13) and previous accounting periods were prepared and audited on a PP basis. The FY14 RA are prepared on a FP basis.

The RA are prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 1 October 2014 ("RAPM"). The allocation methodologies referred to in the RAPM have been updated and amended compared to those used to prepare the RA for the year ended 30 June 2013 to reflect changes in the business, amendments to management estimates and as a result of the availability of improved supporting data in certain areas such as Fixed Assets and Project regulatory classifications.

The successful completion of the Digital Switch-Over (DSO) project and other significant capital programmes during the past year has demonstrated the capability of the Group to deliver large scale complex infrastructure projects on time and under budget. As is common in such large scale capital programmes, on completion a number of final project adjustments have been made resulting in a restatement to the comparative fixed asset number for the year ended 30 June 2013 (due to the timing of DSO asset capitalisation relating to telemetry and indirect costs) and a reallocation of the depreciation charge between NA and MTS in the year, including a significant credit in NA depreciation. FY15 is expected to return to a more steady state depreciation charge, following the completion of the capitalisation of these major capital programmes in FY14.

During the year the Group underwent an operational restructuring; however this has not impacted the cost base and has not impacted the regulatory allocations. The realignment (explained further in the RAPM) came into effect during October 2013; transactions prior to this period in FY14 have been transferred to the new Cost Centres reflecting the current group Division structure; which is assumed to have been in place for the full financial period (year ended June 2014).

In accordance with requirements of the Undertakings and in the opinion of the Directors, these accounts have been prepared in accordance with RAPM in order to Fairly Present the regulated business activities.

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Statement of Directors' responsibilities

The Directors are required to prepare Regulatory Accounts, in accordance with Section 15 of the Undertakings to the Competition Commission (the "Undertakings") which present fairly 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 properly extracted from Arqiva Broadcast Holdings Limited's (ABHL's) accounting records;
- that the attribution methodologies set out in the separate document entitled 'Arqiva - Regulatory Accounting Principles and Methodologies' dated 1st October 2014 (the "Framework") have been applied appropriately in order to fairly represent the regulated activity, assets and liabilities of the Group.


The Directors also confirm:

- that subject to the application of the Framework, the Regulatory Accounts have been properly prepared on the basis of consistent application of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) across the Group;
- 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 maintenance and integrity of the Group's web site is the responsibility of the Directors and the maintenance and integrity of the OTABTS' 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 respective web sites.

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


Michael Giles
Company Secretary
Crawley Court, Crawley
Winchester, Hampshire
SO21 2QA
October 2014

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

Report on the Regulatory Accounts

Our opinion

In our opinion the Regulatory Accounts, defined below:

- fairly present in accordance with the Regulatory Accounting Principles and Methodologies dated 1 October 2014 ("RAPM"); and
- fairly present in accordance with conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Broadcast Holdings Limited (previously called 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 Broadcast Holdings Limited and its subsidiaries (together the "Group" for the year ended 30 June 2014 on pages 7 to 13 which comprise:

- the Profit and Loss Account, the Balance Sheet, the Reconciliation to Statutory Consolidated Profit and Loss Account, the Reconciliation to the Statutory Consolidated Balance Sheet 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 13.

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 2014 ("the Statutory Accounts") and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP 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

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.

As explained in the RAPM and the "Basis of Preparation" on page 13, the Group has prepared the Regulatory Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Group

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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 2014 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.

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 Broadcast Holdings 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 and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' above, and having regard to the guidance contained in Audit 05/03 'Reporting to Adjudicators of Regulated Entities' 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.

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

24 October 2014

Arqiva Broadcast Holdings Limited

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Profit and loss account

| | Network Access | Managed Transmission Services | Network Access | Managed Transmission Services |
|--|----------------------------|--|----------------------------|--|
| | Year ended 30 June 2014 | Year ended 30 June 2014 | Year ended 30 June 2013 | Year ended 30 June 2013 |
| | £'000 | £'000 | £'000 | £'000 |
| Total TV revenue | 134,320 | 41,718 | 129,970 | 37,972 |
| Total Radio revenue | 42,113 | 17,873 | 39,693 | 15,928 |
| Total revenue | 176,433 | 59,591 | 169,663 | 53,900 |
| Rent and rates | (15,949) | - | (14,414) | - |
| Labour Cost of Sales and Maintenance | (10,343) | (12,873) | (9,217) | (11,212) |
| Cost of Sales | (26,292) | (12,873) | (23,631) | (11,212) |
| Operating costs | (20,120) | (7,789) | (19,085) | (8,240) |
| Depreciation, impairment and gain/loss on disposal of fixed assets | (24,894) | (20,453) | (30,291) | (15,768) |
| Total operating costs | (45,014) | (28,242) | (49,376) | (24,008) |
| Exceptional costs | (1,450) | (630) | (944) | (806) |
| Operating result (after exceptional costs) | 103,677 | 17,846 | 95,712 | 17,874 |

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2014

Balance sheet

| | Network Access | Managed Transmission Services | Network Access *restated | Managed Transmission Services * restated |
|--|---------------------------|--|---|---|
| | 30 June 2014 | 30 June 2014 | 30 June 2013 | 30 June 2013 |
| | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | 677,716 | 200,134 | *634,184 | *197,044 |
| Current Assets | | | | |
| Debtors | 41,203 | 12,122 | 48,306 | 13,354 |
| Cash at bank and in hand | 12,799 | 3,832 | 13,133 | 3,506 |
| Total Current Assets | 54,002 | 15,954 | 61,439 | 16,860 |
| Creditors: amounts falling due within one year | (44,934) | (16,618) | (36,328) | (11,931) |
| Net Current Assets/(Liabilities) | 9,068 | (664) | 25,111 | 4,929 |
| Total Assets less Current Liabilities | 686,784 | 199,470 | 659,295 | 201,973 |
| Provisions for liabilities and charges | (30,381) | (2,216) | (26,879) | (3,753) |
| Capital Employed | 656,403 | 197,254 | 632,416 | 198,220 |

* Restated as a result of DSO project capitalisation.

These Regulatory Accounts were approved by the Board of Directors on 20 October 2014 and were signed on its behalf by:



Peter Shore - Director

Reconciliation to Statutory Consolidated Profit and Loss Account for the year ended 30 June 2014

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|---|----------------------------|--|----------------------------|---|
| | Year ended 30 June 2014 | Year ended 30 June 2014 | Year ended 30 June 2014 | Year ended 30 June 2014 |
| | £'000 | £'000 | £'000 | £'000 |
| Revenue | 176,433 | 59,591 | 589,533 | 825,557 |
| Cost of Sales | (26,292) | (12,873) | (262,219) | (301,384) |
| Operating Costs | (20,120) | (7,789) | (89,907) | (117,816) |
| Depreciation, impairment and loss on disposal of fixed assets | (24,894) | (20,453) | (77,252) | (122,599) |
| Operating profit | 105,127 | 18,476 | 160,155 | 283,758 |
| Exceptional items | (1,450) | (630) | (6,160) | (8,240) |
| Operating Result after exceptionals | 103,677 | 17,846 | 153,995 | 275,518 |
| P&L items excluded for regulatory reporting purposes * | | | | |
| Amortisation of goodwill on acquisition | | | | (157,659) |
| Share of operating profit in joint venture and associates | | | | 2,700 |
| Income from Investments | | | | 400 |
| Interest receivable and similar income | | | | 2,300 |
| Interest payable and similar charges (exceptional) | | | | (112,272) |
| Interest payable and similar charges | | | | (531,100) |
| Share of Joint Venture interest payable | | | | (1,500) |
| Loss on ordinary activities before taxation | | | | (521,613) |
| Tax on loss on ordinary activities | | | | 18,120 |
| Loss on ordinary activities after taxation | | | | (503,493) |
| Equity minority interests | | | | (259) |
| Loss for the financial year | | | | (503,752) |

* For further detail in respect of the nature of P&L items excluded for regulatory reporting purposes please refer to the Arqiva Broadcast Holdings Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2014.

Reconciliation to Statutory Consolidated Profit and Loss Account for the year ended 30 June 2013

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|---|----------------------------|--|----------------------------|---|
| | Year ended 30 June 2013 | Year ended 30 June 2013 | Year ended 30 June 2013 | Year ended 30 June 2013 |
| | £'000 | £'000 | £'000 | £'000 |
| Revenue | 169,663 | 53,900 | 597,277 | 820,840 |
| Cost of Sales | (23,631) | (11,212) | (257,392) | (292,235) |
| Operating Costs | (19,085) | (8,240) | (84,790) | (112,115) |
| Depreciation, impairment and loss on disposal of fixed assets | (30,291) | (15,768) | (61,741) | (107,800) |
| Operating profit | 96,656 | 18,680 | 193,354 | 308,690 |
| Exceptional items | (944) | (806) | (27,051) | (28,801) |
| Operating Result after exceptionals | 95,712 | 17,874 | 166,303 | 279,889 |
| P&L items excluded for regulatory reporting purposes * | | | | |
| Amortisation of goodwill on acquisition | | | | (157,312) |
| Share of operating profit in joint venture and associates | | | | 1,670 |
| Income from Investments | | | | 120 |
| Interest receivable and similar income | | | | 2,000 |
| Interest payable and similar charges | | | | (446,700) |
| Share of Joint venture interest payable | | | | (970) |
| Loss on ordinary activities before taxation | | | | (321,303) |
| Tax on loss on ordinary activities | | | | 17,230 |
| Loss on ordinary activities after taxation | | | | (304,073) |
| Equity minority interests | | | | (341) |
| Loss for the financial year | | | | (304,414) |

* For further detail in respect of the nature of P&L items excluded for regulatory reporting purposes please refer to the Arqiva Broadcast Holdings Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2014.

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2014

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|--|---------------------------|--|-----------------------|---|
| | 30 June 2014 £'000 | 30 June 2014 £'000 | 30 June 2014 £'000 | 30 June 2014 £'000 |
| Fixed Assets | 677,716 | 200,134 | 832,431 | 1,710,281 |
| Debtors | 41,203 | 12,122 | 216,275 | 269,600 |
| Cash at bank and in hand | 12,799 | 3,832 | 80,794 | 97,425 |
| Total Current Assets | 54,002 | 15,954 | 297,069 | 367,025 |
| Creditors: amounts falling due within one year | (44,934) | (16,618) | (909,148) | (970,700) |
| Net Current Assets/(Liabilities) | 9,068 | (664) | (612,079) | (603,675) |
| Total Assets less Current Liabilities | 686,784 | 199,470 | 220,352 | 1,106,606 |
| Provisions for liabilities and charges | (30,381) | (2,216) | (15,344) | (47,941) |
| Capital Employed | 656,403 | 197,254 | 205,008 | 1,058,665 |
| Assets/(Liabilities) excluded for regulatory reporting purposes * | | | | |
| Intangible fixed assets including goodwill | | | | 1,866,794 |
| Investments in Joint Ventures | | | | 10,622 |
| Investments | | | | 110 |
| Creditors: amounts falling due after more than one year (long term debt/deferred income) | | | | (4,297,600) |
| Pension surplus | | | | 3,760 |
| Total Capital Employed | | | | (1,357,649) |

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Broadcast Holdings Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2014.

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2014

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2013

| | Network Access **restated | Managed Transmission Services **restated | Other **restated | Total per Statutory Accounts |
|--|--|---|-------------------------------|---|
| | 30 June 2013 £'000 | 30 June 2013 £'000 | 30 June 2013 £'000 | 30 June 2013 £'000 |
| Fixed Assets | *634,184 | *197,044 | *827,023 | 1,658,251 |
| Debtors | 48,306 | 13,354 | 192,943 | 254,603 |
| Cash at bank and in hand | 13,133 | 3,506 | 132,411 | 149,050 |
| Total Current Assets | 61,439 | 16,860 | 325,354 | 403,653 |
| Creditors: amounts falling due within one year | (36,328) | (11,931) | (633,954) | (682,213) |
| Net Current Assets/(Liabilities) | 25,111 | 4,929 | (308,600) | (278,560) |
| Total Assets less Current Liabilities | 659,295 | 201,973 | 518,423 | 1,379,691 |
| Provisions for liabilities and charges | (26,879) | (3,753) | (23,470) | (54,102) |
| Capital Employed | 632,416 | 198,220 | 494,953 | 1,325,589 |
| Assets/(Liabilities) excluded for regulatory reporting purposes * | | | | |
| Intangible fixed assets including goodwill | | | | 2,017,991 |
| Investments in JVs | | | | 9,865 |
| Investments | | | | 110 |
| Creditors: amounts falling due after more than one year (long term debt/deferred income) | | | | (4,201,457) |
| Pension deficit | | | | (2,321) |
| Total Capital Employed | | | | (850,223) |

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Broadcast Holdings Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2014.

** Restated as a result of DSO project capitalisation.

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 ABHL is organised for management and statutory reporting purposes. As such, the RA are derived from the general ledger used to prepare the consolidated ABHL statutory accounts, which capture all of the Group's businesses, with the reporting requirements of the Undertakings overlaid.

ABHL maintains its core accounting records in a manner which allows for revenues, costs, assets and liabilities to be attributed either directly or indirectly to the Network Access and Managed Transmission Services.

The RA analyse ABHL's activities into three core categories: 'Network Access', 'Managed Transmission Services' and 'Other'. 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 ABHL and therefore represent the remainder of the Group's business.

These RA are prepared on a Historic Cost Basis in accordance with the accounting policies set out in the consolidated statutory accounts for ABHL (which are themselves prepared in accordance with UK GAAP) together with Arqiva's RAPM.

(b) Realignment

During FY14 ABHL implemented an organisation realignment which was designed to:

- enable growth and customer focus,
- support clear accountabilities, alignment and organisation effectiveness,
- create effective central functions/shared services and
- focus on talent, capabilities, succession & careers

This realignment resulted in a number of Cost Centres previously included in the Business Operations structure to be aligned to the individual Divisions to which they relate. The previous Broadcast and Media Division was split into Terrestrial Broadcast and Satellite Divisions. This resulted in the ABHL divisional structure consisting of 5 main Divisions; Terrestrial Broadcast, Satellite, Telecoms, Digital Platforms and Smart & M2M with a supporting Corporate function (including Technology).

