Arqiva Broadcast Holdings Limited

(formerly Macquarie UK Broadcast Holdings Limited)

Regulatory Accounting Principles and Methodologies

2012/13

Prepared by Regulatory Finance

Document Reference: RAPM 2013

Release Date: 9th October 2013

Table of Contents

1 Regulatory Accounting Principles....3
1.1 Arqiva Broadcast Holdings Limited....3
1.2 Moving Towards 'fairly presents' Audit Opinion....3
1.3 Regulatory Accounting Principles....3

2 Attribution Methods....4
2.1 Introduction....4
2.2 Organisation Structure....4
2.3 Valuation and Measurement....5
2.4 Allocation Bases....6
2.4.1 Overview....6
2.4.2 Revenue....6
2.4.3 Costs....7
2.4.4 Capital Employed....9
2.4.5 Regulated Fixed Asset Register (RFAR)....9
2.4.6 Work In Progress (WIP)....10
2.4.7 Other Balance Sheet....10
2.4.8 Non-Financial Data....11

Appendix A 13
A.1 Allocation Methodologies Used....14

1 Regulatory Accounting Principles

1.1 Arqiva Broadcast Holdings Limited

Arqiva Broadcast Holdings Limited (ABHL, formerly Macquarie UK Broadcast Holdings Limited) and its subsidiaries (the Group) is required, under the terms of the Undertakings agreed with the Competition Commission in respect of the acquisition of the National Grid Wireless ('NGW') Group by Macquarie UK Broadcast Ventures Limited, to prepare annual Regulatory Accounts for the Network Access (NA) and Managed Transmission Services (MTS) activities, as defined by the Undertakings, of the combined Arqiva and NGW businesses.

This document sets out the Regulatory Accounting Principles and Methodologies (RAPMs) on which the Regulatory Accounts are based, and the detailed methods applied in attributing revenues, costs, assets and liabilities to the NA and MTS activities.

The RAPMs are maintained in accordance with Section 15.5 of the Undertakings given to the Competition Commission.

It is intended that this document is read in conjunction with the Statutory Consolidated Financial Statements (SCFS); this document will be updated annually in the event of any changes to the Regulatory Accounting Principles or detailed attribution methods.

1.2 Moving Towards 'fairly presents' Audit Opinion

The Regulatory Accounts for the year ended 30 June 2013 (FY13) are required to be audited with a report issued in the form "properly prepared in accordance with...". It is the intention of the Group to continue to make improvements to the basis of preparation of the Regulatory Accounts and supporting information such that in future the auditors can provide a report on the "fair presentation" of the Regulatory Accounts, as envisaged by the Undertakings. In order to achieve this, management have continued to develop improvement initiatives to enhance the reporting processes, some of which are listed below:

- Established a reporting team within Regulatory Finance
- Use of Oracle Timecard Entry data
- Windloading focus group established to ensure KEEP (Site Data Warehouse) is complete and kept up-to-date
- Oracle R12 Implementation
- Asset Management and Fixed Asset Improvement initiatives
- Project initiatives to support the classification of project costs

Further enhancements are expected in FY14 including automated allocations via Hyperion and allocation methodologies may also require amendment as part of the realignment of the business structure to support delivery of product to customers.

1.3 Regulatory Accounting Principles

The Regulatory Accounts are based on the following Regulatory Accounting Principles

- **UK GAAP**: the Regulatory Accounts will be derived from the SCFS of ABHL prepared in accordance with UK Generally Accepted Accounting Principles as defined by the Group accounting policies set out in the SCFS unless any specific deviation is required as a result of conforming to this document.

- **Causality**: revenues, costs, assets and liabilities will be attributed to the NA, MTS and Non-Regulated businesses on a basis which reflects the activities causing the revenues to be earned, costs to be incurred, assets acquired or liabilities incurred. Where such a direct relationship does not exist, revenues, costs, assets and liabilities will be attributed on a reasonable and fair basis.

- **Consistency**: the Regulatory Accounts will be prepared on a consistent basis from one year to the next to allow for meaningful year on year comparisons. Should any changes be made to the Regulatory Accounting Principles or the Attribution Methods that lead to a material effect on the information reported in the Regulatory Accounts, the corresponding prior year figures will be restated; however this may not be possible in all cases.

- **Transparency**: this document should provide a suitably informed reader with a clear description of the accounting and attribution methods used in the production of the Regulatory Accounts.

2 Attribution Methods

2.1 Introduction

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 Regulatory Accounts are derived from the general ledger used to prepare the SCFS of ABHL, which capture all of ABHL's businesses, with the reporting requirements of the Undertakings overlaid.

The Regulatory Accounts have been prepared using the current group Divisional structure.

2.2 Organisation Structure

The Group owns and operates a portfolio of communications infrastructure and provides television and radio transmission services, tower site rental, media services and radio services in the United Kingdom (UK) and satellite services in the UK, Europe, United States of America (USA) and Asia. There are five Divisions within the group, three of which are either directly or indirectly attributable to the Regulated Business presented within the Regulatory Accounts. Network Access and Managed Transmission services represent sub categories of this Regulated Business and Other represents Non-Regulated business included in the Regulatory Accounts for the purposes of reconciliation to the SCFS. The table below shows the Divisions and how these are represented within the Regulated Business:

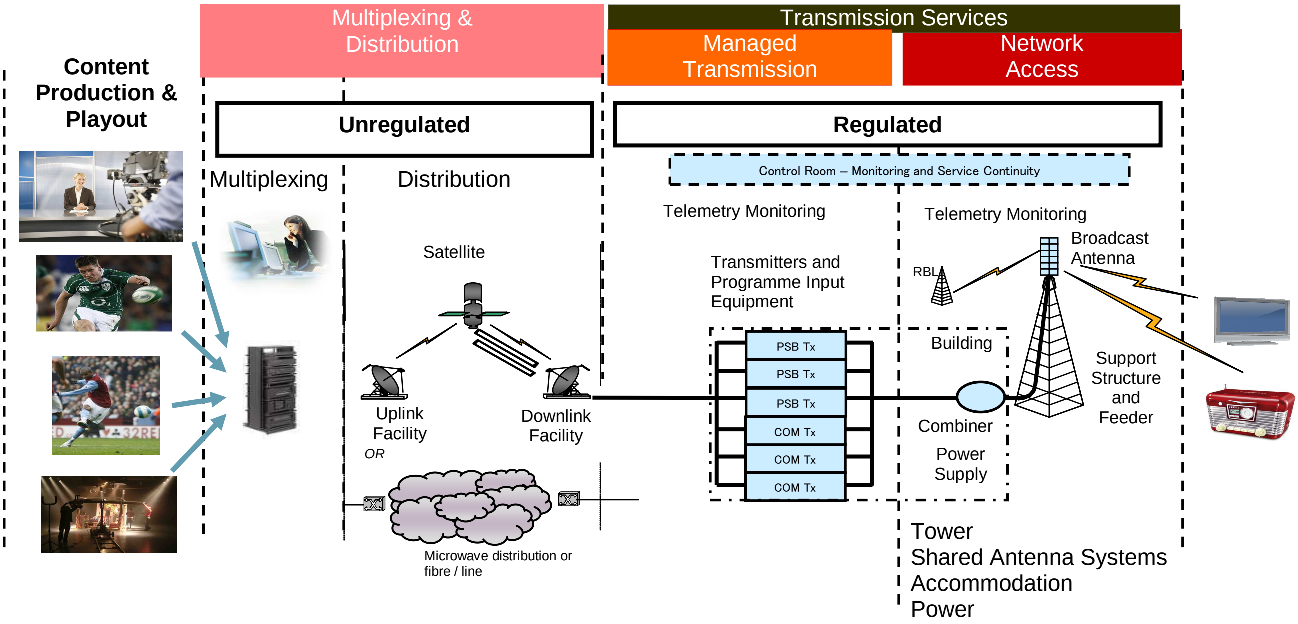
Arqiva - Divisional Structure

Broadcast and Media	Business Operations (Support functions)	Corporate (Support functions)	Government Mobile and Enterprise (NR)	Digital Platforms (NR)
Terrestrial Broadcast (R) Satellite (NR)				
Provides television and radio transmission, distribution and media management for the world's leading broadcasters on multiple global platforms (including Satellite services).	Delivery arm of Arqiva, responsible for the provision of broadcast and telecommunications services as well as the design and operation of the Group's technical facilities, networks and sites infrastructure.	Support Functions for Arqiva Group, i.e. Finance, HR, IT etc.	Provides cellular, wireless broadband, voice and data solutions for the mobile communications, public safety, local government, and commercial markets.	Includes Arqiva's two commercial multiplexes (to broadcast range of commercial Freeview channels) and YouView.
Regulated and Non Regulated	Regulated and Non Regulated	Regulated and Non Regulated	Non Regulated	Non Regulated
Split NA/MTS/Other - see 2.4.3.1 and 2.4.3.2	Split NA/MTS/Other - see 2.4.3.3	Split NA/MTS/Other -see 2.4.3.4	Other only	Other only

Note : Network Access and Managed Transmission Services represent sub categories of the Regulated business and Other represents the non-regulated business

R = Regulated
NR = Non regulated

The Broadcast and Media (B&M) Division includes both Terrestrial Broadcast (which includes Regulated activities) and Satellite Business Units (which is Non-Regulated). Both Telecoms and Digital Platforms (DP) divisions are also classified as Non-Regulated and excluded from the Regulatory Accounts.
Business Operations (BOps) and Corporate Divisions provide support services across all divisions and as such require attribution to the Regulated Business activities (NA and MTS) and Non-Regulated activities.



The Regulatory Accounts analyse the activities within these divisions into two core categories: Network Access ('NA') and Managed Transmission Services ('MTS') with all 'Other' activities being included in the Regulatory Accounts only in order to support reconciliation to the SCFS. 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 NA and MTS activities. Indirect attributions are often the subject of management estimation and judgement as described in the RAPMs. The Regulatory Accounts apply the following definitions of NA and MTS:

- Network Access - a package of services including combining output from transmitters and broadcasting the combined signal from antennas located on suitable masts or other structures. The provision of NA will include access to the following:
    1. Masts
    2. Antenna Systems including feeders and combining units
    3. Buildings and/or cabins
    4. Power systems including back-up power in a form of fixed generators
    5. Existing Re-Broadcast Links (receive antennas) at Relay Stations
    6. Remote monitoring of all the Stations

- Managed Transmission Service - a package of services including some or all of network design, procurement and installation of transmitters, network monitoring, quality assurance of the signal and maintenance of the transmission equipment, but excluding: the provision of programmes and other content for each channel, the transfer of the content channels to a multiplexing centre and blending them into a single digital signal. As such, MTS includes a mixture of service provision and return on assets.

2.3 Valuation and Measurement

The SCFS are prepared on a historical cost basis. Fixed assets are held at cost, modified for the fair value of those assets acquired through business combination. Section 2.4.5 sets out the most recent dates at which fair value exercises were undertaken.

2.4 Allocation Bases

2.4.1 Overview

The ABHL Group has structured the chart of accounts in its main accounting system to allow for revenues, costs, assets and liabilities to be separated into the various divisions and support functions noted above. Certain costs, assets and liabilities are captured at a total company level and require further analysis and management judgement to apportion to the relevant Divisions and further into the regulatory activities presented in the Regulatory Accounts.

The following key components are used in preparing the Regulatory Accounts:

- Each Division is made up of a number of business streams. Business streams may be allocated directly in or out of scope of the regulatory business. Business streams reflect management ownership of revenue, costs or balance sheet balances. E.g. all costs relating to the Satellite Central business stream (which sits within the B&M division) may be classified as non-regulated.

- Each business stream is further disaggregated into cost centres such that for those business streams which cannot be wholly and directly allocated to a regulatory business, a further analysis and attribution of revenues, costs and balance sheet is performed by cost centre. E.g. within the business stream Engineering Delivery, all costs relating to the Satellite Systems Engineering cost centre may be classified as non-regulated whilst those relating to Programme Delivery will require a further allocation exercise to determine the appropriate split between NA, MTS and Other.

- Within these business streams and cost centres, allocation methodologies will differ by account code (e.g. the allocation principles for trade debtors will differ to those of salaries).

Where data is recorded in the general ledger by site location code (for example fixed assets and rent costs) the windloading methodology (see section 2.4.8.1) is used to allocate these site specific shared costs/assets between Regulated and Non-Regulated activities.

2.4.2 Revenue

Revenue is shown net of VAT and discounts and is extracted directly from the accounting records and customer billing system. Initially account code and Business Stream flags are used to identify the income attributable to the divisions which are then further analysed as follows:

- elimination of Non-Regulated Telecoms and DP revenues using business stream flags,

- elimination of Non-Regulated Satellite revenues using the B&M business stream flag,

- the remaining B&M Terrestrial Broadcast revenue is either allocated to NA, MTS or Non-Regulated using product and customer details or relates to Bundled Revenues as described below.

Separate contracts exist for HPDTT (High Power Digital Terrestrial Television) products which are directly attributed to NA, MTS and Non-Regulated (e.g. distribution). Therefore, no allocation estimates need to be applied to these contracts.

Bundled revenue services do not have a specific price for each service provided and therefore require allocation as follows:

- Commercial radio bundled revenues are split based upon an analysis of relevant radio contracts renewed in the year to estimate the portion of regulated revenue and how this is split between NA and MTS. Pass Through elements such as Electricity and other Non-Regulated services are classified as Other. BBC bundled contract radio revenues are split based on reference offer values for NA and distribution and the remainder to MTS.

- BBC bundled television contract revenues are split in accordance with the contract cost model agreed with the customer. The remaining bundled television contracts are split using the respective proportions of NA, MTS and Other charges identified for HPDTT television contracts. This is applied as a proxy for allocation purposes, as the nature of the NA and MTS equipment upon which the HPDTT contracts are based is broadly similar across HPDTT, Analogue TV and Low Power DTT (LPDTT).

The Analogue and LPDTT Television network has been decommissioned on a region by region basis and has been replaced with HPDTT. The associated Analogue and LPDTT Television revenues are being reduced in line with this and relate to the first four months of the year only.

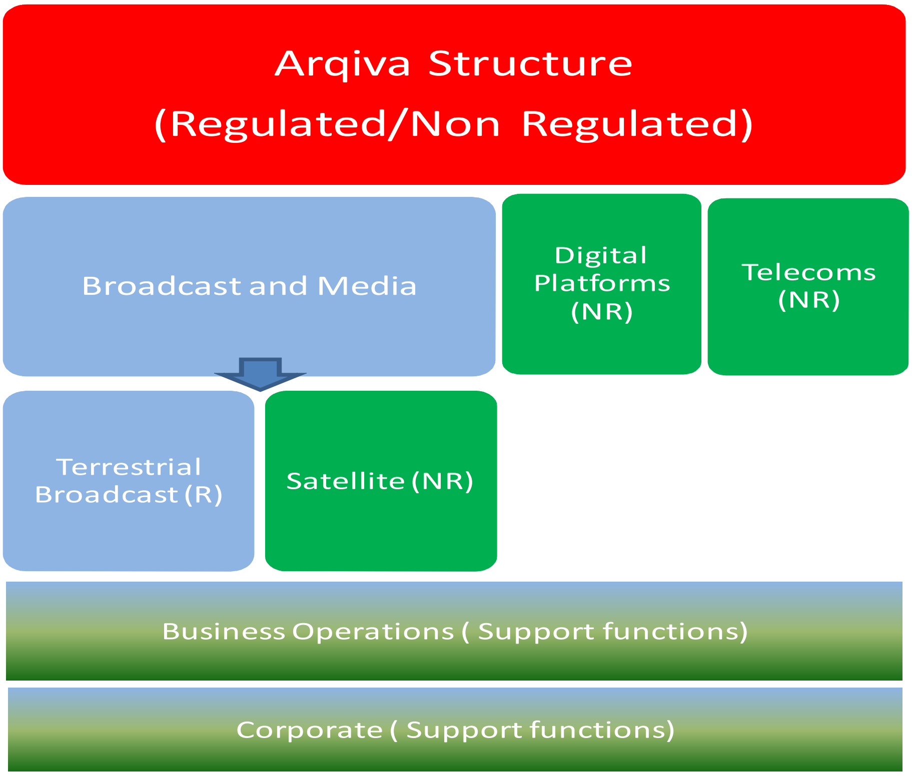
Revenue relating to Digital Switch Over (DSO) corporate overheads has been allocated between NA or MTS on the basis of labour hours booked to projects within Oracle Time & Labour (OTL) which are allocated to NA and MTS activities and an element of management estimates based on historic data.

Revenue relating to Local TV is based on the split between NA and MTS as per the contract.

2.4.3 Costs

All costs are captured in cost centres which are unique to the five Business Divisions. Costs allocated to the three Divisions associated directly or indirectly with the Regulatory business (i.e. B&M, BOps and Corporate) are extracted from the accounting system and analysed further (by expenditure type) into NA, MTS and Other.

2.4.3.1 Broadcast & Media (B&M) Division



R = Regulated
NR= Non regulated

Support Functions support both Regulated and Non Regulated Businesses.

Expenditure related to Telecoms, DP and Satellite businesses are out of scope and classified as "Other".
The basis of allocation of Business Operations and Corporate is set out below.

The initial step within the B&M Division involves the exclusion of Non-Regulated business streams such as Satellite and a small number of legacy Digital Platforms cost centres. The remaining cost centres and business streams are then analysed further to ascertain a NA/MTS/Other breakdown. Common Regulated business costs which can not be identified as NA and MTS specifically are allocated using the NA 83%: MTS 17% ratio (as described in section 2.4.8.3).

Generic costs which are generally accepted to cover the breadth of the B&M Division (including Non-Regulated business i.e. Satellite) are allocated based on the relative revenue proportions of the B&M Divisions.

Employee related costs such as salaries are allocated using OTL derived percentages. These percentages are driven by the value of time recorded against projects which have been classified into NA, MTS and Non-Regulated (see section 2.4.8.2 on Non-Financial Data for further information).

2.4.3.2 Cost of Sales

The Cost of Sales (COS) allocated to the Regulatory Accounts relate to the B&M, BOps and Corporate divisions. The allocation methodology used for each of the classification categories are as follows:

- **Rent and rates** are charged on a site by site basis and are allocated directly to sites on an as incurred basis. Where Broadcast sites share common infrastructure with other services, such as Mobile Telecommunication, the Windloading methodology (described in the Non-Financial Data section 2.4.8.1 below) is used to allocate the Regulated/Non-Regulated elements across both divisions (Broadcast & Media and Telecoms).

- **Power** is allocated directly from supplier invoices to sites on an as incurred basis. The majority of Broadcast electricity is consumed by customer specific MTS equipment. These costs are a pass-through to the customer (no margin being earned by ABHL) and categorised as Other.

  There is an element of unavoidable power cost in the delivery of sites, e.g. mast beacons and security. As it is uneconomical to meter this estimated £0.3m NA cost for all Terrestrial Broadcast sites, this category has been excluded from direct Power Cost of Sales in the Regulatory Accounts.

- **Circuits -** the majority of circuits and telephony costs within Terrestrial Broadcast are procured directly for a specific Customer contract. It is possible for Broadcasters to procure their requirements directly from a supplier, therefore the costs associated with this service are Non-Regulated and classified as ‘Other’.

- **Labour COS and Maintenance -** Labour costs are generated using the relevant percentage of value of time recorded against Billable projects using Oracle Time & Labour (OTL)(described in the Non-Financial data section 2.4.8.2).

  Maintenance costs relate to third party invoices for Regulated Business infrastructure and equipment. Their allocation has been derived from a detailed schedule of supporting contract data, managed by the Business Operations division e.g. maintenance contracts, equipment hire & maintenance and facilities costs.

2.4.3.3 Business Operations (BOps) Division

Using the same methodology noted above, costs are extracted from the accounting system using cost centres and Business Streams. These costs are then allocated to NA and MTS and Other based upon the following methodologies:

- costs are directly attributed to NA, MTS and Other, where applicable;
- Employee related costs allocated based on OTL data (see section 2.4.8.2)
- Windloading is applied where site or location data is available (see section 2.4.8.1);
- the NA 83% : MTS 17% ratio (see section 2.4.8.3) is applied where grouped Regulated costs are not easily identifiable as NA or MTS

These attribution methods are described further in the Non-Financial Data section (2.4.8) below.

2.4.3.4 Corporate Division

Corporate divisional costs are allocated in line with the ABHL Corporate Management Accounts. These cost allocations are used to recharge Corporate costs to revenue generating business divisions. The accounting rules applied to the Corporate recharge are as follows:

1. Charge the Business Division (such as B&M) based upon headcount, revenue or windloading as allocated for internal management product profitability reporting purposes,
2. Allocate the B&M division recharge to B&M Business Streams (i.e. to product) using their relative revenue percentages,
3. Further allocation to NA and MTS is based upon NA 83% : MTS 17% ratio (as described in 2.4.8.3).

Costs relating to the DSO corporate overheads have been reallocated using an overlay to the cost methodologies outlined above to calculate the additional amounts to be recognised within the regulated business based on average allocations of Business Operations and corporate costs. These have been further allocated between NA and MTS on the basis of the split of DSO assets between these categories.

2.4.3.5 Exceptional Costs

Using the same methodology noted above, the exceptional costs for the ABHL Group are extracted from the accounting system using cost centres and Business Stream codes flags.

Categories of exceptional cost include:

- Restructuring and redundancy - these costs have been allocated using a mix of revenue and OTL percentages, (the most appropriate basis being used in each case)
- Corporate finance activities – these costs have been classified as Non-Regulated
- Contract bid costs relating to Smart Metering – these costs have been classified as Non-Regulated

2.4.4 Capital Employed

Capital employed comprises:

- Total assets, excluding goodwill, intangibles arising from acquisitions and retirement benefits; less
- Total liabilities, dividends payable, borrowings and retirement obligations.

Deferred tax is included within Debtors and has been allocated to Other, whilst current tax liability is within Other Creditors and has also been classified as Other.

2.4.5 Regulated Fixed Asset Register (RFAR)

The RFAR is produced using the two Fixed Asset Registers (FAR) within ABHL; Arqiva Limited and Arqiva Services Limited. The latest fair value adjustments for both Companies occurred as follows:

- Arqiva Limited was last valued in 2005; and
- Arqiva Services Limited was last valued in 2007, which is in line with the respective acquisition dates of the two companies.
- The 2010 valuation was not applied to the Fixed Asset registers

Assets are attributed to NA and MTS by firstly considering the site location to identify whether assets are located on broadcast sites. Assets at sites which do not involve broadcast are immediately classified as Non-Regulated. Each asset type is subsequently sub-divided into a specific asset category (e.g. Masts, Buildings, Power, Antennas, Land and Transmitters) and finally these asset categories are then apportioned using the following steps:

1. Direct Allocation – where possible, assets are allocated directly to NA, MTS or Other based upon asset category as described above, then

2. Network Access asset categories not allocated directly during step 1 are shared NA assets with other business divisions, such as Telecoms. These assets (e.g. Buildings, Masts, Land) are further categorised into Regulated/Non-Regulated using Windloading factors, specific to each site location. Windloading allocations are described in more detail in the Non-Financial Data Section 2.4.8.1 below.

.

3. Finally, an element of the Head Office assets are allocated to NA, MTS or Other based on the Corporate Division recharge methodology described in section 2.4.3.4.

NA, MTS and Non-Regulated depreciation is identified based upon the Regulatory assets classification determined above.

Capitalised overhead costs are allocated between NA, MTS and Other based on the average split of total assets (excl capitalised labour and asset categories with no labour input).

Site specific 800MHz Clearance assets are directly categorised to NA or MTS, however Programme (non-site specific assets) are allocated using 95%/5% (NA/MTS) based on a management estimate.
Accrued depreciation on assets that have been completed but not yet added to the RFAR is allocated based on a management estimate of 95%/5% (NA / MTS) for all 800MHz Clearance assets and the remainder is split using the NA 83%: MTS 17% ratio (see section 2.4.8.3).

2.4.6 Work In Progress (WIP)

In order to attribute Capital WIP balances to NA, MTS or Other, the business unit and nature of the project have been used. Further clarification was obtained from Project Managers where possible to assist with this classification. Where a Regulated project is identified as “Mix” i.e. split between NA and MTS, this is allocated using the NA 83%: MTS 17% ratio as described in section 2.4.8.3.

For large projects such as the Digital Switch Over (DSO) programme, the capital WIP balances supporting the new HPDTT NA assets have been identified and are allocated in full to NA. Windloading is not applied as these costs are incurred wholly and exclusively for the purpose of HPDTT. DSO Capitalised interest has been allocated using the appropriate EY RAB valuation TV NA/MTS split.

2.4.7 Other Balance Sheet

Current Assets and Liabilities – These balances are allocated mainly on their key driver in the profit andloss account. An example of the material items are shown below:

VAT	Based on Trade debtor / creditor balances for NA /MTS /Other	Average % then applied to VAT balance
Cash balances	Based on cash balances	These balances are attributed to NA and MTS on the basis of the Earnings before Interest, Tax and Depreciation (EBITDA) proportion they contribute to ABHL total EBITDA. Cash balances held for re-financing purposes are excluded to reflect normal operational cash balances.
Deferred Income	Based on deferred income report	Allocated according to business stream . Then NA/MTS/Other based on revenue %
Trade Debtors	Based on Trade debtor report	Allocated according to customer detail. Then NA/MTS/Other based on revenue %
Provisions	Based on Provisions Balance detail	Allocated according to provsion type for example windloading used for Site provisions. Specific decommissioning provisions for TV and Radio split 78:22 NA: MTS

2.4.8 Non-Financial Data

As stated above, certain attributions to NA, MTS and Other are made using Non-Financial Data. The use of such data and its application is consistent with methodologies applied in HPDTT and Radio Reference Offers previously audited for Ofcom.

The key methodologies used are as follows:

2.4.8.1 Windloading

Windloading is a technical assessment of the 'base moment' (based on the physical Windload multiplied by the height on the structure) of specific services on a Broadcast mast. The base moment of each antenna on a mast is a function of the size and height of the antenna and related feeder (cable). The Windloading base moment for a site that relates to each category of antenna (Broadcast or Other) is expressed as a percentage of the total base moment.

Windloading is a recognised methodology for attributing NA assets and costs as it relates common services to the underlying cost drivers. It has been used extensively in various documents that have been reviewed and approved by Ofcom and their appointed advisors e.g. Windloading was used as a cost allocation base in the Reference Offers for DSO and Radio Reference Offers

2.4.8.2 Oracle Time & Labour (OTL)

OTL is a time recording system which has been in development for a number of years and includes a more robust dataset for cost allocation based upon time recorded data using employee skills based hourly rates.

Employees record time to projects which are subsequently allocated to Business Divisions i.e. an employee in the B&M Division may record time against a project which belongs to the Telecoms Division, therefore the costs associated with this time would be Non-Regulated and excluded from the Regulatory Accounts.

Projects are classified into three main categories; Billable (Cost of Sales), Expense (Operating Expenditure) and Capital (classed as Other).

The Labour cost allocated to NA, MTS and Other is derived using the following approach:

- Project classifications - projects within B&M and BOps Divisions are treated as follows:

  Broadcast & Media - projects within B&M have been categorised into NA, MTS and Other based upon an extensive exercise in FY13 to provide a Regulatory Classification to every project and validating them by liaising with the appropriate Project Managers. Projects which have no clear distinction between NA and MTS but are clearly regulatory are divided using the NA 83%: MTS 17% ratio (see section 2.4.8.3).

  All employees in Arqiva are allocated to a Business Area based on the cost centre they are allocated to, such as Customer Service Delivery (CSD) within BOps. Where CSD employees charge their time to a B&M Regulated NA project this is wholly attributable to NA. The hours recorded against specific Regulatory projects are multiplied by the equivalent skill based rate per hour to give an overall labour cost for the time recorded against that project.

  Business Operations – as the primary purpose of the BOps Division is to support the ABHL revenue generating business areas, an element of the hours charged to BOps projects need to be recharged back into the Regulated Business. The costs are valued in the same process as noted earlier, this is based on the skills based rate per hour. The process is as follows:

  - Firstly, all BOps projects are classified as Regulated or Non-Regulated by establishing whether the project has an impact on the Regulated Business (e.g. a generic mast inspections project will be classed as a regulatory project)
  - Secondly, all Regulatory projects are then given a secondary classification which identifies which allocation percentage to use to recharge the costs against this project back into the Regulatory Accounts (eg. estates and property projects which relate to owned sites are classified as 'Rates' and the weighted average percentages of Rates

costs is used)

- Finally, the total business area costs for BOps are aggregated and added to Operating Expenditure (not Cost of Sales as these are all expense projects).

An analysis of cost centres that do not time record within B&M is conducted and based on an agreed set of allocation methodologies for each cost centre a proportion of this cost is allocated to the Regulated Accounts.

2.4.8.3 NA/MTS ratio

Where shared Regulated Business costs are not directly attributable to NA or MTS activities these have been allocated 83% NA and 17% MTS based upon a management estimate informed by new data available from the EY valuation of the Regulatory Asset Base (RAB). Where balances relate specifically to TV or Radio the appropriate allocation percentage is applied to provide a NA and MTS split. This represents an improvement in allocation from previous years where a 60%:40% (NA and MTS respectively) ratio based on management judgement was used.

This allocation basis was used in previous HPDTT Reference Offers audited for Ofcom. Going forward the management estimate based on the valuation of the RAB will be used.

Appendix A

Working Documents

A.1 Allocation Methodologies Used

Regulated Accounts 2012/13

Allocation Principle Executive Summary

ABHL Group

Year End 30 June 2013

Allocation Methodologies Used

	Direct	OTL	Windloading	Revenue	Other
Revenue	*Wholly attributed to NA and MTS using product and customer billing systems, incorporating Account Code and Business Stream flags*				***Bundled revenue: TV*** *- BBC split based upon contract cost model agreed with BBC, the remaining bundled television contracts are split using the respective proportions of NA and MTS charges identified for HPDTT;* ***Radio*** *- split based upon an analysis of relevant radio contracts renewed in the year.*
Rent and Rates	*Some Rent and Rates costs are charged on a site by site basis and are therefore allocated directly to sites on an as incurred basis.*		*Certain sites share services with other divisions, such as Telecoms. The non-regulated element of these costs are removed using the Windloading methodology.*		
Labour COS	*Projects analysed into NA, MTS and Other based upon Project Description and Project Managers' validation*	*Actual Employee Time recording bookings summarised to provide a split between NA/MTS and Other activities, multiplied by chargeable Rates within OTL.*			
Maintenance	*Contract data directly attributed to NA, MTS and Other*		*Certain sites share services with other divisions, such as Telecoms. The non-regulated element of these costs are removed using the Windloading methodology.*		*Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon EY Valuation Model*
Operating Costs	*Projects analysed into NA, MTS and Other based upon Project Description and Project Managers' validation*	*Actual Employee Time recording bookings summarised to provide a split between NA/MTS and Other activities, multiplied by chargeable Rates within OTL.*	*Site related costs windloaded, e.g. Facilities costs*	*Marketing and Logistics costs relating to ABHL Group, allocated to B&M based upon B&M proportion of total ABHL Group Revenue*	*Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon EY Valuation Model*
Exceptional costs		*Restructuring costs specific to Business Areas (such as CSD) allocated using OTL*		*Costs relating to ABHL Group costs*	*Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon EY Valuation Model*
Depreciation	*Assets directly attributable to NA and MTS identified by asset type. Depreciation is based on the same methodology.*		*Shared assets with other divisions such as Telecoms, windloaded.*		

Direct allocation is the primary allocation methodology where possible, the remaining methodologies are secondary and applied on causality basis as appropriate