



**Arqiva Broadcast
Holdings Limited**

Registered number 05254001

**Annual Report and Consolidated
Financial Statements**

For the year ended 30 June 2013

Table of Contents

Chairman's Statement	1
Directors' report and statement of Directors' responsibilities	3
Independent Auditors' report to the Members of Arqiva Broadcast Holdings Limited	19
Consolidated profit and loss account	20
Consolidated balance sheet	21
Statement of group total recognised gains and losses	22
Consolidated cash flow statement	23
Company balance sheet	24
Notes to the financial statements	25
1 Principal accounting policies.....	25
2 Turnover and segmental reporting.....	28
3 Operating profit.....	29
4 Exceptional items.....	30
5 Staff costs.....	31
6 Directors' emoluments.....	31
7 Interest receivable and similar income.....	32
8 Interest payable and similar charges.....	32
9 Tax on loss on ordinary activities.....	33
10 Dividends.....	34
11 Intangible assets.....	34
12 Tangible assets.....	37
13 Investments.....	38
14 Debtors.....	41
15 Cash at bank and in hand.....	42
16 Creditors: amounts falling due within one year.....	42
17 Creditors: amounts falling due after more than one year.....	43
18 Provisions for liabilities and charges.....	45
19 Share capital.....	46
20 Share premium account.....	46
21 Profit and loss reserve.....	46
22 Reconciliation of movement in shareholders' (deficit) / funds.....	47
23 Cash flow from operating activities.....	47
24 Analysis of changes in net debt.....	48
25 Commitments for expenditure.....	48
26 Contingent liabilities.....	49
27 Pension commitments.....	49
28 Related party disclosures.....	53
29 Controlling parties.....	53

Chairman's Statement

Financial year 2013 has been not only a very successful period for Arqiva but also one of considerable change.

In October 2012 the group delivered the last site of the Digital Switchover (DSO) Programme a £600m, 7 year, complex capital project converting the whole country from terrestrial analogue to digital television. This project was delivered on time and under budget an achievement praised by the Prime Minister, David Cameron, in a message to the company. This project has added over £4bn to the group's order book however as it comes to an end the focus now changes to the post DSO world.

Following a strategic review we have set ambitious growth targets for the company over the next few years which compares to the flat revenues of the last 3 or 4 years. In order to achieve this we have looked hard at what we have to do differently and have started on the road to transforming the group so that we can realise the ambitions of both management and the shareholders. The key areas of focus can be summarised as follows:

1. Put our customers at the heart of everything we do.
2. Ensure our employees clearly understand what is expected of them and what part they can play in supporting customers and enabling growth.
3. Strengthen the financing structure of the group to allow us to compete for larger contracts.
4. Invest in new areas that maximise the value of our core assets and deliver new products that help our customers operate better.
5. Look to improve efficiency and effectiveness and better align our structure to support delivery of product to customers.

We now undertake regular customer surveys to better understand our customers' requirements and ensure we are providing the best possible service. Management have set up internal customer teams that focus on our key customers ensuring we drive continual improvement in the service we provide.

During the year management have invested a significant amount of time and resource in setting a new purpose, vision and set of values for the group. We believe these are a key part of the transformation of Arqiva and have ensured that every member of staff has received appropriate training so that all are aware of what is expected of them and how they can contribute to the success of the company.

In February, management successfully completed the refinancing of the group. This was a two year process that included the achievement of a BBB rating from two Rating Agencies and ended with a significantly oversubscribed debt offering. We believe we now have a solid financial foundation from which to launch our growth agenda.

During the year we made two acquisitions, Spectrum Interactive and Connect TV. Although neither were large, both allow us to get a significant foothold in key markets that would otherwise have taken a number of years to break in to but we believe complement our existing products. Spectrum Interactive operates in the Wi-Fi space and Connect TV is a player in the Hybrid TV market.

In addition to these we have strengthened both our strategy and product development teams whose role it is to identify opportunities which will benefit our customers and drive the growth we seek.

Continual improvement in process to drive efficiency and effectiveness is also now at the core of what we are trying to do. We have made a substantial investment in this area and although there remains a lot to do we are already seeing the benefits of the investment made.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The results of these changes are now starting to be seen and in recent months Arqiva has won a number of significant contracts which strengthens our resolve that the changes we are making are right. Examples of contract wins include:

- the announcement from the Department for Energy and Climate Change that we have been awarded the Smart Metering contract for the North region a contract value of £625m.
- the announcement from the Department of Culture, Media and Sport that we have been awarded the contract to deliver the Mobile Infrastructure Project with a contract value of circa £100m.
- We have been awarded the contract to transmit local TV on behalf of the new multiplex operator appointed by Ofcom.
- We have been awarded the license to establish two new HD multiplexes in the 600MHz spectrum band to run to 2026 with a possible break in 2018.
- We have also had significant success in the WiFi business; winning distribution rights in a number of a key locations including most UK airports and a number of key London Boroughs.

We believe these successes demonstrate that Arqiva is now on track to deliver the growth agenda it has set itself. Although there still remains much to do we look forward to the future with optimism.

On behalf of the Board, I would like to thank the entire staff of Arqiva for their contribution during the past year. Under the leadership of John Cresswell (Chief Executive) and the Management Board, the truly collaborative approach of the 2,000 people across the business has been instrumental in the many successes we have celebrated this year.



Peter Shore
Chairman

Directors' report and statement of Directors' responsibilities

The Directors of Arqiva Broadcast Holdings Limited ('ABHL'), registered company number 05254001, ('the Company') and its subsidiaries ('the Group') submit the following annual report and audited consolidated financial statements ('financial statements') in respect of the year ended 30 June 2013.

The Company is a holding company with an investment in a group of operating companies.

The Arqiva Group - principal activities

The Group owns and operates a portfolio of communications infrastructure and provides television and radio transmission services, tower site rental to mobile network operators, media services and radio communications in the United Kingdom ('UK').

The Group has structured its business into three customer facing business units, supported by an operations division and central corporate functions. The business units within the Group comprise:

- Broadcast and Media ('B&M') is the sole provider of transmission services for all UK terrestrial TV broadcasters including the BBC, ITV and C4, who reach 20 million homes and cover 98.5% of the population. B&M operates the new networks built for the Digital Switch Over ('DSO'). The Group has ownership of over 90% of the radio transmission towers for terrestrial broadcasting in the UK and is the operator of the only commercial national digital radio multiplex. Transmission is also provided for BBC Radio and most commercial radio stations. The satellite element of the business unit provides communication platforms to enterprise, government and broadcast customers around the world. It owns and operates teleports at key locations, as well as owning an international terrestrial fibre network, media facilities and leasing satellite capacity. These enable the Group to provide customers with a comprehensive range of services to deliver their data, broadcasts and media internationally.
- Digital Platforms is the Group's multiplex business which owns and operates two of the three main commercial digital terrestrial TV multiplexes (out of a total of six multiplexes), plus two new HD multiplexes (recently awarded for additional HD services on Freeview), used for transmission of DTT services in the UK. These enable major media companies to bring their TV and radio services to 20 million homes with access to the Freeview platform.
- Telecoms, which was previously known as Government, Mobile and Enterprise ('GME'), provides cellular, wireless broadband, voice and data solutions for the mobile communications, public safety, local government and commercial markets. Arqiva is the largest independent provider of towers in the UK, which are licensed to national mobile network operators ('MNOs') and other wireless network operators. With its own spectrum, the Group can provide complete mobile communications networks including backhaul links.
- The Business Operations division provides engineering, delivery, monitoring and maintenance services to the whole of the Group, their focus being on service and efficiency.
- Central corporate functions include Strategy and Business Development, Finance, Legal and Commercial and People and Organisation. The Group has significantly strengthened these areas in order to support the focus on strategic and business development, financial planning, efficiency, procurement and financing activities.

The Group's radio and TV broadcast operations are regulated by the Office of Communications ('Ofcom') on behalf of the wholesale broadcast customers. The areas of the business impacted by this regulation are B&M and Business Operations.

Business and market environment

Business environment

As a capital intensive infrastructure business, Arqiva benefits from having a significant number of long term contracts with its customers and a number of these include automatic RPI linked increases. Due to the nature of the business, the time lag between product development, contract award, capital investment and revenue generation can be considerable.

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.

The Group has been responsible for delivery of the DSO project which is now substantially complete. The investment in this project is secured by long-term fixed or RPI linked contracts out as far as 2034 with high quality counterparties such as the BBC and ITV, securing long-term revenues. Digital Terrestrial TV remains the platform of choice in the UK covering 98.5% of the population.

The Group holds spectrum licences for two of the three main commercial digital terrestrial TV multiplexes plus two new HD multiplexes, selling space for channel programming on the Freeview platform. Historically, this has run at close to 100% utilisation with customers including Film4 and UKTV. Channel contracts vary in length but are usually between three and five years duration.

Arqiva's satellite infrastructure provides excellent levels of connectivity, reliability and security, Arqiva owns, manages and operates teleports and media hubs at key locations, plus comprehensive satellite capacity, multiplexes and an international fibre network.

The Group is the UK's largest independent provider of wireless towers which are critical to mobile network operators' contractual obligations to provide national coverage. Revenue from the Group's tower portfolio is secured by contracts with all of the large UK mobile operators. Planning restrictions create high barriers to entry. The recent release of 4G spectrum for use in the mobile market is also expected to drive growth in revenue.

Market environment

The switchover of the UK's terrestrial television system to a high power digital transmission service together with network consolidation and technological change within the mobile communications sector are key market changes which continue to impact the Group's existing businesses.

A significant focus of the Group in recent years has been the delivery of the DSO project. This project was to convert the UK's terrestrial television system from analogue and low power digital transmission services to a high power digital transmission service. The Group has successfully delivered this significant and complex nationwide engineering solution and in October 2012 the last region was completed on schedule and within budget. This represents the conclusion of the technical delivery of a seven year project which has involved the removal of more than 5,000 analogue transmitters from 1,154 sites across the UK. We have replaced these with 3,700 digital terrestrial TV transmitters to bring digital TV to 98.5% of the people in the UK. The project is now rapidly winding down and it is expected that all DSO work will cease in the next financial year with all DSO objectives having been met.

The effect of DSO has been to demonstrate the capability of the Group to deliver large scale complex infrastructure projects on time and under budget; and while the construction of this high power digital network has been financed by Arqiva it is supported by long term contracts with key broadcasters, including the BBC, that are all 17 - 20 years in length and contribute around £4 billion to the order book of the Group.

Arqiva continues to work closely with the MNOs as they seek to reduce their costs by network consolidation and expand a wholesale network to deliver a "Connected Britain". The Group continued to strengthen its position as a key supplier in this market and has long term contracts with a number of UK MNOs, ensuring it is at the heart of the mobile operators' consolidation plans.

While the mobile industry is experiencing continued network consolidation amongst the mobile network operators, significant growth in demand for mobile data is expected to fuel continued investment in mobile infrastructure. Growth in smartphones and mobile enabled devices along with faster download speeds has led to a significant increase in the demand for mobile data services.

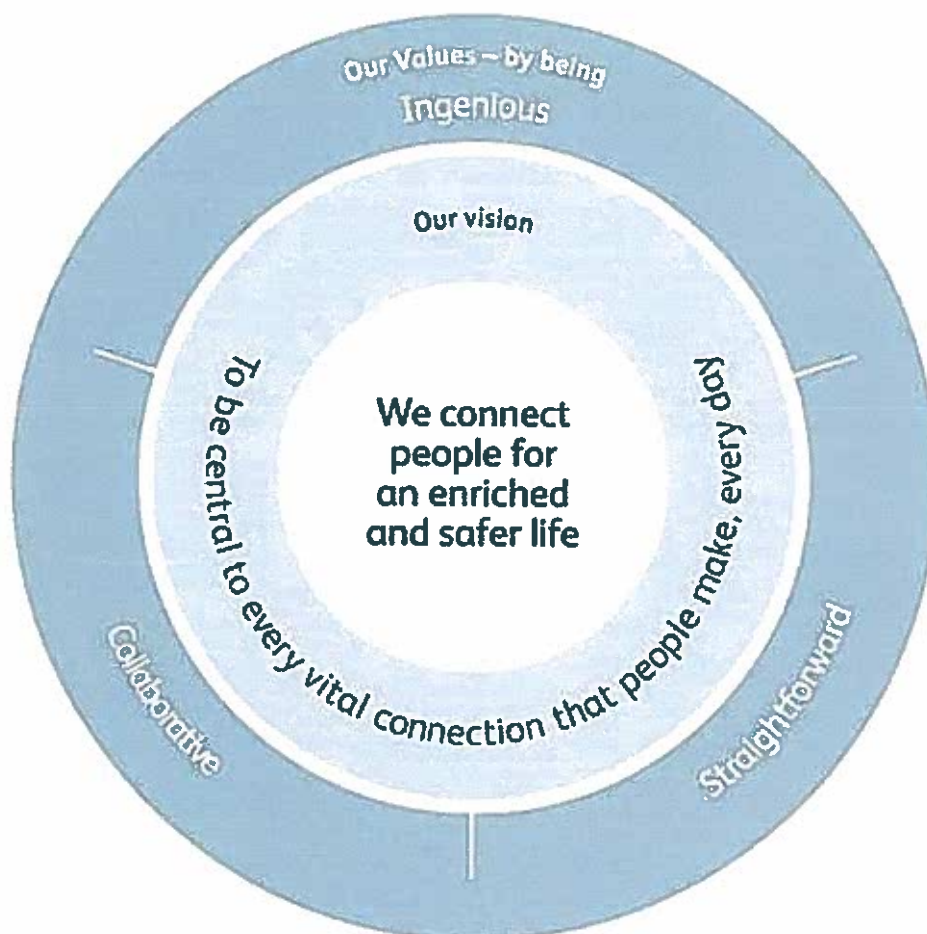
Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Arqiva's purpose, vision and values

Everything we do at Arqiva is guided by our values to go the extra mile to help our customers reach their customers and audiences.

We believe we have a role to play in shaping our dynamic industry. It's what we've been doing for the last 90 years. We actively engage with government, trade associations and other industry players as we know that to keep our customers connected we must continually work to identify and develop the ideas that will enable society's digital future.



Ingenious: we find ingenious and smarter ways to support our customers; we inspire customers and each other; we embrace change and fresh thinking; we find solutions that add real value.

Straightforward: we talk and act in a clear and straightforward way to make sure we are always effective and understood; we keep things simple and clear; we act with integrity; we are plain speaking and we listen.

Collaborative: we bring expertise and passion to collaborate as one team and go that extra mile; we engage widely and act as one team; we take personal responsibility; we build on our strengths.

By getting these values right we will realise our vision:
To be central to every vital connection people make, every day. Always.

Business review and strategy

Future developments and growth opportunities

It is the intention of the Company and the Group to continue to operate and invest in communications infrastructure, maximising value of the core businesses and to explore appropriate growth opportunities which represent a strategic fit with our existing businesses and infrastructure assets.

The key steps management are taking to execute our strategy are as follows:

- Maximising the value of each of the strong core businesses – leveraging existing resources and infrastructure to increase turnover and cash flow through offering additional services to existing and new customers in the core business units,
- Investing in the future of Digital Terrestrial Television ('DTT') by supporting ventures such as YouView, video on-demand services and the high definition capability on Freeview,
- Focusing on higher margin products and exiting low margin markets e.g. the run-down of the Wholesale Satellite business and the exit of the outside broadcast business;
- Investing in growth opportunities that leverage the Group's existing assets, pursuing scalable growth opportunities which build on the stable infrastructure base; and
- Improving processes to be more efficient and customer focused ensuring we simplify and standardise processes in order to optimise operational cost and efficiency.

The Group has identified, and in some cases secured, a number of scalable growth opportunities to further leverage its existing infrastructure expertise and customer relationships and increase its critical role in the UK's infrastructure network. These include:

- New uses for existing infrastructure such as;
 - smart metering
 - the Government funded Mobile Infrastructure Project
 - WiFi infrastructure
- Additional revenues from new capacity for digital terrestrial television channels driven by advancements in compression technology (i.e. increasing the number of video streams or channels per multiplex),
- Switch Over from analogue radio to DAB, and
- Increasing demand for wireless site capacity driven by the trend for increasing mobile data usage and continued roll out of 3G and 4G mobile networks.

We also support and sponsor key industry initiatives designed to strengthen the media and communications sector and applaud its successes. For example, we were the headline sponsor of the British Academy of Film & Television Arts (BAFTA) British Television Awards in both 2012 and 2013. And in 2013 we continued our long-term sponsorship of the Arqiva Commercial Radio Awards, the UK's biggest annual celebration of commercial radio.

To deliver the new contracts recently won and successfully pursue growth opportunities, Arqiva has reviewed its organisational structure to better align the business to drive and support its long term growth agenda and improve customer service. The re-alignment took effect from 1 October 2013 and the key changes are as follows:

- Moving to five product led business units;
 - Digital Platforms
 - Terrestrial Broadcast
 - Smart Metering (including machine to machine)
 - Satellite
 - Telecoms
- Business Operations to be vertically split between the relevant sales facing business units
- CTO function to drive new product development and manage shared services across the company
- With support from a central corporate function comprising;
 - Finance
 - Strategy and Business Development
 - People and Organisation
 - Commercial

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Acquisitions

The Group's WiFi infrastructure offering will enable Arqiva to offer the MNOs a WiFi data offload service on a neutral host basis. This is supported by the Group's acquisition of Spectrum Interactive Limited in July 2012, which rebranded to 'Arqiva WiFi' in October 2012. The purchase came with 15,000 access points and 2,100 premium WiFi locations enabling Arqiva to accelerate activity in this area given the acquisition of this highly scalable platform. Arqiva WiFi has so far been successful in significantly increasing its footprint of WiFi hotspots across UK airports, key London boroughs such as Camden and hotel and leisure chains, which includes the provision of WiFi access to 85,000 hotel rooms and 61 airport lounges. Further development and discussions are ongoing with potential customers.

During September 2012, the Group completed the acquisition of Connect TV Limited. The Connect TV platform enables broadcasters and content owners to use the internet to provide new channels and services to the fast growing connected TV market. Following further development, during May 2013 we launched a whole new entertainment experience for the connected Freeview audience. It is the UK's first hybrid DTT and IP-based channel portal. This portal operates on channel 18 on the Freeview platform under the name '4Music', seamlessly delivering IP-based music content from the Kiss, Magic and Kerrang! brands through a single channel number. Following the launch, interest in the product is encouraging.

Major contract wins

On 13 May 2013, the Department of Culture and Media and Sport (DCMS) announced that Arqiva had been successful in winning the contract for the Mobile Infrastructure Project (MIP), for which it will provide towers, passive site equipment (such as antennas) and network management services which the mobile network operators will utilise. MIP is a government initiative to expand and improve coverage to regions of the UK which currently have no mobile access or mobile access of poor quality, with the ultimate goal of providing service to 75% of the 0.3% of premises that are currently in areas without any 2G services ('not-spots'). The DCMS has committed funding up to about £150 million in capital investment in these sites.

On 16 July 2013, following a consultation Ofcom confirmed Arqiva has been awarded the licence to establish new HD multiplexes in the 600MHz spectrum band. As the multiplex operator, we will build a new network which will enable a significant increase in the number of high definition channels broadcast on the DTT/Freeview platform. The licence will run until 2026, but with a minimum duration to 31 December 2018, subject to revocation on 24 months' notice. Arqiva is required to cover 10% of UK households within 12 months and 50% of UK households within two years, including 25% coverage in each of the four countries in the United Kingdom (England, Scotland, Wales and Northern Ireland).

The government have licensed Ofcom to implement local TV and Arqiva has been the leader in implementing this change. By adopting an innovative approach to network design involving equipment previously used for low powered DTT, a solution was agreed that made local TV economically viable. The Group are now working with the successful applicant on network roll out.

Smart metering is a project to install smart energy meters in every home in Great Britain in order to improve efficiency and facilitate monitoring of gas and electricity use by consumers. On 14 August 2013, Arqiva was chosen by the Department for Energy and Climate Change (DECC) as the preferred bidder to provide smart metering communications for the North region. The contract was signed on 20 September 2013. This region covers c10m premises in Scotland and the North of England. The award was in recognition of the technical superiority of Arqiva's proven smart metering communications solution, which has been shown to work equally well across all parts of the country. The solution includes Sensus technology that has been successfully deployed internationally in more than 16 million smart meters and devices. It is capable of supporting the evolution of smart services more broadly, including locations deep inside buildings that other communications technologies have struggled to reach.

In August 2013, the Group was successful in winning a new contract for provision of BBC analogue and digital radio services and in addition, for the expansion for the next phase of the digital radio build-out. The 17 year contract includes radio transmission services for the BBC's FM, MW, LW and core National Digital Audio Broadcast (DAB) networks. Arqiva will also build out the BBC National DAB network, to enable it to reach 97% of the UK population by the end of 2015. The contract covers some of the UK's most popular radio stations on analogue and digital radio, including BBC Radio 1, 2, 3 and 4, BBC 5 Live and BBC regional radio stations.

Arqiva Broadcast Holdings Limited

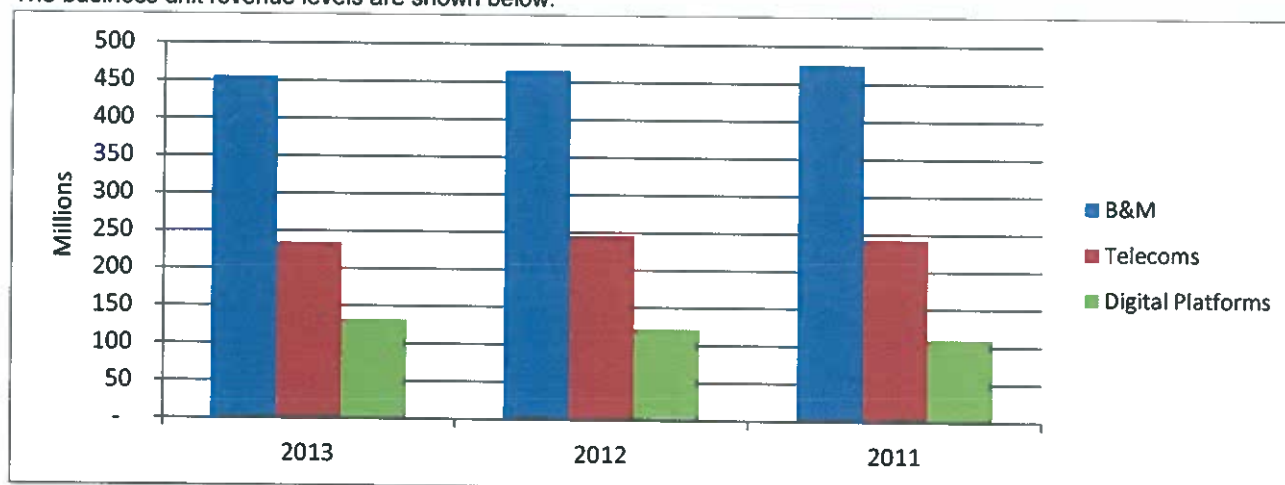
Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Financial position and key performance indicators ('KPIs')

In 2013, the Group delivered revenues of £820.8m (2012: £831.7m), with a gross profit of £528.6m (2012: £517.1m) and operating profit of £122.6m (2012: £123.8m).

This growth in gross profit has been achieved despite slight reductions in revenue levels, by focusing on higher margin products and exiting low margin markets (e.g. the run-down of the Wholesale Satellite business and the exit of the outside broadcast business) in line with the Group's strategy.

The business unit revenue levels are shown below:



3 year KPI trend data

The KPI's chosen reflect both a measure of the financial success and long term growth of the business, and the level of service provided to our customers, including that service provided on third party multiplexes.

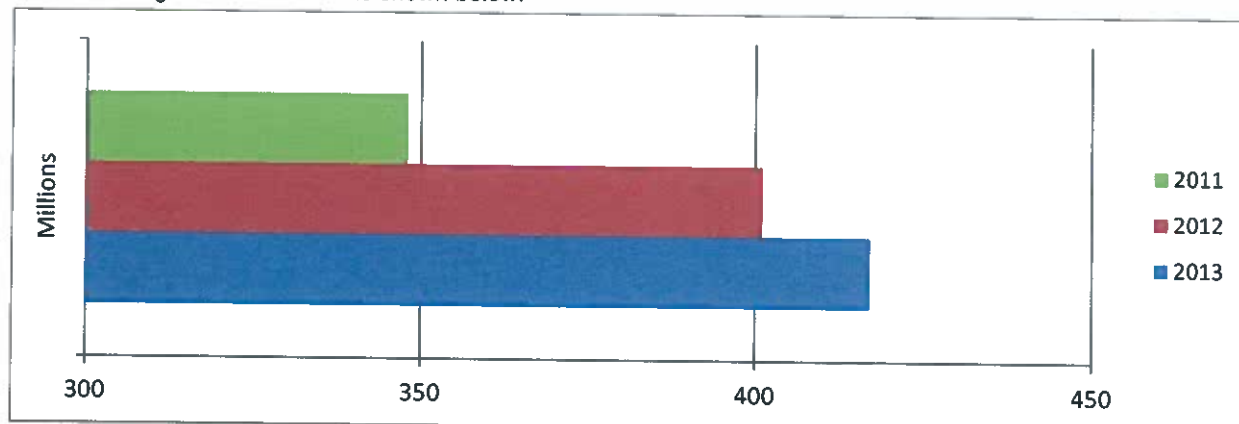
Measure	30 June 2013	30 June 2012	30 June 2011
EBITDA	£416.6m	£401.2m	£347.7m
Combined Network Availability	99.99%	99.98%	99.99%
Own TV Multiplex Network Availability	99.99%	99.99%	99.98%

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The key measure of the Group's financial performance is EBITDA.

Our EBITDA growth since 2011 is shown below:



EBITDA is defined as operating profit, before share of profit from joint ventures and associates, profit or losses on the disposal of fixed assets, depreciation, amortisation, interest and exceptional items but after non-interest finance costs, principally bank charges. EBITDA for the year ended 30 June 2013 is £416.6m (2012: £401.2m) an increase of 4%.

A reconciliation of the reported EBITDA to the financial statements is provided below:

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£'m	£'m	£'m
Operating profit before exceptional items	151.4	147.5	103.1
Depreciation of fixed assets	105.9	94.1	89.2
Impairment of fixed assets	-	5.6	-
Amortisation	159.1	155.2	155.4
Other (including loss on disposal of fixed assets and non-interest finance costs principally bank charges)	0.2	(1.2)	-
EBITDA	416.6	401.2	347.7

Exceptional items incurred during the year to 30 June 2013 were £28.8m (2012: £22.5m). See note 4 for further details.

Other significant KPIs for the Group are the level of network availability across both TV and radio infrastructure. When significant engineering projects are underway, such as DSO, the measurement of milestones on these contracts also forms part of our KPIs. The target combined network availability for the Group is 99.94% and the actual network availability achieved was 99.99% during the year to 30 June 2013. In addition, the Group's own TV multiplexes have a target availability of 99.95% and the actual availability achieved was 99.99% during the year.

Financing Structure

During February 2013, the Group closed its refinancing raising £2,936m funds from both bank facilities and bond markets. These funds together with retained cash balances and further funds advanced by shareholders in the form of shareholder loan notes were used to repay previous bank facilities.

The Group raised £1,586m in bank loans, together with £750m in bonds listed on the London market with an investment grade credit rating (BBB from Standard & Poors and Fitch), and £600m of non-investment grade bonds.

During June 2013, the Group completed a US Private Placement transaction raising £398.5m in a combined sterling and US Dollar denominated offering. The proceeds of this offering have been applied to the early repayment of the medium term bank loans referred to above.

The Group now has a stable long term investment grade capital structure and new £400m committed bank facilities enabling the Group to invest in its business to support its customers' mission critical business needs.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

At 30 June 2013 the Group's financing comprised:

	Note	30 June 2013 £'m
Shareholder financing		
Shareholder equity (share capital and share premium)	19,20	969.5
Shareholder loan notes	17	1,273.9
		2,243.4
Bank loans		
Senior term debt	17	1,186.0
Other loans		
Senior bonds	17	1,148.5
Junior bonds	17	600.0
Finance lease obligations	16,17	14.5
		1,763.0
Total		5,192.4

These financing instruments have certain financial covenants attached, principally an interest cover ratio and a debt leverage ratio. The Group continues to comply with all covenant requirements. Additionally, financing has been provided from the ABHL shareholders in the form of equity and shareholder loan notes.

Further details of the Group's debt facilities are given in note 17 to the financial statements.

Going concern

On a consolidated basis the Group has net liabilities. The Group adopts the going concern basis in preparing its consolidated financial statements based on future profit, cash flows and available facilities, which lead the Directors of the Company to be confident that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group had a net cash inflow from operating activities of £349.0m in the year (2012: £377.6m).

The Company is in a net asset position.

Taxation

The Group has recorded a corporation tax credit for the year ended 30 June 2013 of £17.2m. This is primarily due to two factors, capital allowances arising as a result of the significant investment in UK infrastructure by the Group and the interest cost of funding that long term investment. The capital allowances result in a tax deduction spread over a period of time defined by HMRC in order to encourage such investment. The interest expense is deducted in accordance with UK tax legislation for companies which use debt to fund investments. This interest expense has resulted in the Group recording a net loss before taxation in the current year. Although the Group has not paid any corporation tax in the period, it continues to pay business rates, account for income tax and national insurance on employee remuneration, and pay other taxes for which it is liable. These payments were approximately £86m in 2012/13.

The Arqiva Group is a primarily UK based infrastructure Group; while there are some trading operations outside of the UK these generate only 1% of EBITDA and there are no tax planning activities undertaken which seek to reduce its UK profits or revenues by transferring revenue or profit out of the UK. Arqiva's tax arrangements are transparent and fully compliant with HMRC rules and guidance. The Group's small trading entities overseas deal directly with customers in their area of residence and fulfil their tax requirements in the local jurisdictions.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Risk management

Principal risks and uncertainties facing the business

The Group has a formal process for monitoring risks and maintains a corporate risk register which is regularly reviewed and reported to senior management and the Directors. The key business risks affecting the Group are set out below together with the Group's mitigating actions; in addition the Group has long term contracts in place with a number of significant blue chip customers which support the Group's long term financial stability.

Business Unit	Description of risk	Risk mitigation
Telecoms	The level of demand for wireless communications and impact on demand for access to the Group's towers.	Significant amounts of capital expenditure have been invested in developing the wireless communications infrastructure in the UK. The Group monitors the demand for mobile data which continues to grow and indications are that spectrum capacity, and antenna deployments, will need to increase to cope with this demand. The Group continues to closely monitor the development of wireless technology and network deployment activities by MNOs.
Telecoms	Network sharing activity amongst the MNOs. However, the Group has already secured long term contracts with many of the MNOs, including Everything Everywhere ('EE'), and is at an advanced stage in negotiations with other such customers.	The Group's sites are predominantly located in rural and suburban areas. Their location exclusivity and restrictive planning regulations create significant barriers to entry and exit. The Group seeks to protect itself by negotiating long term contracts where it makes itself the focal point for consolidation, and facilitates the MNOs consolidation in return for long term revenue certainty.
All	International decisions regarding the future use of the 600 / 700MHz spectrum for DTT. During DSO, the 600 Mhz band had been cleared in preparation for an auction for the long term use of that spectrum for additional DTT multiplexes. This process was put on hold following The World Radio Conference 2012 ('WRC-12') which signalled that countries may clear the 700 Mhz band of DTT in preparation for future use by Mobile Broadband. This would result in the 600MHz spectrum cleared having to be used for existing terrestrial TV.	In November 2012, Ofcom published a UHF Strategy Statement confirming its intention to release 700 MHz for Mobile Broadband use whilst ensuring 600 Mhz band accessibility for DTT, should the change in 700Mhz go ahead post 2018. Ofcom published a consultation for the interim use of the 600 Mhz band for temporary DTT multiplexes, for which Arqiva was the successful applicant. There is a risk of future changes to this Ofcom UHF strategy. The Group continues to engage with Ofcom and the broadcasters to ensure that Arqiva and the television industry's needs are fully considered and sufficient spectrum is available for DTT.
B&M	Interference to terrestrial broadcast transmissions with the launch of 4G services in 800 MHz. The introduction of White Space services in the UHF band presents the risk of additional interference to DTT. Therefore the DTT platform may suffer some churn to other platforms.	As part of the Group's engagement with Ofcom and the broadcasters, we will ensure that Arqiva and the television industry's needs are fully considered as part of these spectrum planning discussions. In addition, the Group has an open and regular dialogue with at800 (a trademark of Digital Mobile Spectrum Limited ('DMSL') which is funded by and represents the UK mobile operators who will be launching 4G mobile services at 800 MHz). The Group is actively involved in trials and discussions around mitigating any such potential interference.
B&M and Digital Platforms	Developments in alternative broadcast technologies, such as broadband internet connected TV, which competes against the Group's DTT transmission business.	DTT retains the largest share of broadcast transmission in the UK. In addition the Group has mitigated some of this risk by investing in YouView TV Limited, a joint venture formed to develop and promote the DTT platform, together with its development in Connect TV – a hybrid IPTC/DTT offering.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Financial risk management

The principal risks and uncertainties of the Group have been outlined above. As a result of these, as well as the on-going business activities and strategy of the Group, Arqiva is exposed to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Group's risk management programme seeks to minimise potential adverse effects as set out below.

Price risk

Energy is a major component of the Group's cost base. A large proportion of this is managed via pass-through arrangements to customers. The Group's residual exposure to fluctuations in the electricity price is managed by forward purchasing the majority of power requirements up to 18 months in advance. Key revenue and cost milestones are set on larger projects to ensure the financial risks of volatile market pricing are mitigated.

Credit risk

The Group is exposed to credit risk on customer receivables which is managed through appropriate credit checking procedures prior to taking on new customers; and higher risk customers paying in advance of services being provided. Performance is closely monitored to ensure agreed service levels are maintained reducing the level of queried payments and mitigating the risk of uncollectable debts.

Liquidity risk

To ensure it has sufficient available funds for working capital requirements and planned growth, the Group maintains cash reserves and access to undrawn committed facilities to cover forecast requirements. As at 30 June 2013 the Group had £100m available working capital facilities and £120.5m cash available to cover short term cash flow timing differences if required, together with a £400m capital expenditure facility. In addition, the Group has £200m of liquidity facilities available to cover senior interest payments if required. Details of the debt maturity profile are provided in note 17. The Group carefully manages the credit risk on liquid funds and derivative financial instruments with balances currently spread across a range of major financial institutions which have satisfactory credit ratings assigned by international credit rating agencies. The levels of credit risk are monitored through the Group's ongoing risk management processes, which include a regular review of the credit ratings. Risk in this area is limited further by setting a maximum level and term for deposits with any single counterparty.

Financing risk

The Group will need to refinance at least part of its debt as it matures and may need additional financing to cover capital expenditure and certain other expenses to support its growth plans. The Group cannot be certain that such financing will be readily available on attractive or historically comparable terms.

The Group mitigates this risk by the strength of the stable long term investment grade capital structure in place, our BBB rating (from Standard & Poors and Fitch) which reflects our strong ability to raise cash and repay debt from our cash flows over a reasonable period of time, maintaining an active dialogue with lenders and investors, maintaining debt with a variety of medium and long term maturities so that over time we do not have a significant concentration of debt due for refinancing in any given year, and aiming to refinance debt well in advance of the maturity date.

Interest rate risk

The Group has variable rate bank debt and uses interest rate and inflation swaps to hedge its exposure to rising interest rates. The Group maintains a hedging policy to manage interest rate risk and to ensure the certainty of future interest cash flows. It currently has fixed rate hedging, split between interest rate swaps and inflation swaps. Interest rate swaps convert variable rate interest costs to fixed rate interest costs while inflation swaps convert fixed or variable rate interest costs to RPI-linked costs, which fluctuate in line with the RPI index as do a proportion of the Group's revenue contracts. Details of the interest rate profile of the Group's liabilities are provided in note 17.

Foreign exchange risk

The Group operates from UK sites and predominantly in the UK market, but has some transactions denominated in foreign currency. While some customer and supplier contracts are denominated in other currencies (mainly US Dollars and Euros), the majority of the Group's revenues and costs are sterling based, and accordingly exposure to foreign exchange risk is limited. Management regularly monitor the impact of foreign exchange risks and assess the need to put any mitigating financial instruments in place. During the year, forward foreign exchange contracts were used to fix the exchange rate for certain overseas revenue contracts, and cross currency swaps were taken out to fix the exchange rate in relation to US Dollar denominated Senior bonds. Details of the cross currency swaps are provided in note 17.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Information security

Due to the critical importance of our sites and systems to the Arqiva Group, to our customers and in some cases as part of the Critical National Infrastructure, the Group takes information security very seriously. As part of the Group's Information Security Strategy, Arqiva has during the year achieved accreditation to the internationally recognised security standard ISO27001 'International Information Security Standard'.

Arqiva has become the first company in the combined Broadcast and Telecoms industry to achieve ISO27001 certification for all platforms and services (end to end) for all of its UK locations. We received the accreditation following our recent security audits which assessed our approach to Information Security and our compliance with the ISO controls framework. Arqiva can now compete for new business which requires ISO27001 accreditation and can confidently demonstrate our security-conscious culture and compliance with this internationally recognised standard.

Audit Committee

The Group's Audit Committee has responsibilities consisting of handling risk management procedures and internal controls, compliance and regulatory issues (including whistle blowing arrangements), accuracy of group financial statements and the appointment and remuneration of external auditors. In addition, the internal audit department agrees its annual audit plan with the Audit Committee and regularly reports its findings and recommendations to it.

The Group has a long standing relationship with its auditors and benefits from regular dialogue regarding the accounting treatment of any complex or significant new contracts contemplated throughout each financial year, with the focus in the current year having been on the refinancing. The Group proactively engages with its auditors in order to ensure it is well prepared for future changes to accounting standards and other applicable developments which may impact Arqiva. At present the Group is discussing matters including:

- the full opportunity presented as part of the Department for Business, Innovation and Skills new subsidiary company audit exemption provisions,
- the future of UK Generally Accepted Accounting Practice ('UK GAAP'), the changes under which would apply to the Group from the 30 June 2016 year end, and
- the joint IASB and FASB exposure draft on leases for which a final IAS accounting standard is not expected to be released until 2014, for adoption in circa 2017, and the adoption of such a standard under UK GAAP may follow in the medium term.

The auditors provide certain non-audit services, principally in relation to transaction support services and tax compliance. The Audit Committee ensures that appropriate safeguards of audit independence are applied where considered necessary, including independent partner review of any key judgements.

Corporate responsibility

Our ethics, values and behaviours all combine to shape our approach to corporate responsibility. At Arqiva we will endeavour to conduct our business in a way that benefits our customers, suppliers, employees, shareholders and the communities in which we operate.

Charitable donations, community and social activities

Taking a collaborative approach to our work, our people and the communities in which we operate is an important company value for us. It is one of the reasons why we have chosen to partner with The Prince's Trust and Walking with the Wounded ('WWTW') charities.

Arqiva has been selected as the Communications Partner for the WWTW South Pole Allied Challenge. In December 2013, three teams of wounded service personnel will set out to race to the Pole. Arqiva will bring its wealth of expertise, experience, and bespoke communication equipment to this challenging expedition to Antarctica. Arqiva will be supporting the communications channels between the teams, their ground crews and wider support networks from the onset of training to the final moment of each teams' successful arrival at the South Pole and their safe return from the Antarctic.

We are supporting the Prince's Trust fundraising efforts, such as the Palace to Palace bike ride in September 2013, where up to 4,000 people rode from Buckingham Palace to Windsor Castle. Arqiva is also a patron of the Prince's Trust. The Prince's Trust focuses its efforts on helping young people with practical and financial support, and developing key workplace skills. The help it provides includes training, personal development, business start-up support, mentoring and advice. It is ingenious in the way that it has changed young people's lives, not through condescension and free hand-outs, but by giving them the means to help themselves. Likewise, our own Apprentice Programme recognises the value that young people can make both to the workplace and society as a whole.

During the year, the Group made charitable donations of £0.1m (2012: £0.1m). All contributions were made as part of a matched funding scheme to match employee fundraising for charitable events up to £500 per employee. The Group also supports the Give As You Earn scheme, working in partnership with the Charities Aid Foundation which manages the Give As You Earn scheme - the UK's leading payroll giving scheme.

Employees are supported to take part in 'Give and Gain Day' volunteering activities whereby they give their time to local charities and organisations for special projects which has included numerous activities such as upgrading the garden area at a local school.

Environment

The Group is committed to complying with all applicable environmental legislation and has assessed the environmental impact of its activities products and services and aims to reduce any negative impacts through active environment management. The Group operates an environmental management system which is accredited to the international standards ISO14001 and ISO50001.

Energy consumption is a key area of interest for the Group given Arqiva are a significant consumer of energy, in particular electricity. Arqiva has launched a new Energy policy which reflects the company's commitments to:

- Improve energy efficiency,
- Reduce energy consumption,
- Invest in energy efficient technology,
- Purchase energy effectively, and
- Monitor carbon emissions.

Part of this new policy is accreditation to ISO50001 'Energy Management System' which is a voluntary International Standard developed by the International Organization for Standardization which aims to establish a framework for an organisation to manage energy effectively.

One of Arqiva's business aims is to reduce carbon emissions and energy costs whilst complying with energy legislation. We have a dedicated team looking at new and innovative ways of driving down our carbon footprint. Responsible management of energy has a key role in minimising our environmental impacts and is embedded within our company. We are investigating how emerging technologies and ingenious ways of working can help us and our customers become more environmentally friendly. As new technologies emerge and legacy equipment is replaced we look for the most environmentally-friendly ways to dispose of redundant hardware. For example, following the completion of the DSO programme we had to remove and dispose of our analogue television infrastructure and re-engineer existing services, and managed to recycle over 90% of the waste.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The Arqiva energy policy is committed to ensuring we meet, and where possible, exceed the requirements of applicable legislation, policies and other commitments to which we subscribe. All employees are encouraged to participate in the energy reduction aims of the company, and the Arqiva Management Board support the energy policy, as well as promoting and maintaining a high profile for carbon and energy issues within the organisation.

The business aims to reduce energy consumption by 2% per annum. As at June 2013, a 7.4% reduction has been achieved against prior year (2012: an annual reduction of 8.2%), exceeding the business aims. We also require our supply chain to guarantee that high levels of our electricity consumption is from renewable sources and continue to strive in our efforts to improve our use of renewable energy.

Employees

The average number of persons employed by the Group during the year was 1,904 (2012: 1,898). The Company itself has no employees (2012: none). Arqiva recognises the significant contribution of its employees and makes every effort to create a rewarding and engaging working environment.

Arqiva has recently received an "Investors in People" 'Gold Award'. This is the highest level of Investors in People recognition available. Achieving the Gold Award is an outstanding recognition of the commitment and hard work put in by many colleagues across the business.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training arranged. It is the policy of the Group that the training, career development and promotion of a disabled person, should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group's employee forums provide an effective channel for communication and collective consultation across the company. They play an important role in enabling employees to help the Group manage change effectively. The goals of each forum are to act as the formal staff consultative body for its part of the business within Arqiva, provide a voice to management on employee issues, initiate and support division-wide social activities, and promote consultation and sharing of information. The Group Employee Forum comprises representatives of all the local forums. This forum provides an effective channel for communication and collective consultation on issues that affect the whole Group.

Significant emphasis is placed on employee communication. The Group intranet 'Connect' has been refreshed and makes information available to employees on all matters including company performance, and issues affecting our industry. Alongside this refresh the Group has launched its new values – *"ingenious, straightforward, and collaborative – Always"*, which will form the fundamental basis of all business Arqiva conduct.

Our quarterly employee magazine 'IQ' includes business news, information on special projects, people profiles, environmental and charity initiatives and competitions. The Management Board host quarterly briefings at all key sites and a Managers Conference is held annually to kick-off the new financial year.

We want all our employees to benefit from our success and growth as a business. Our annual bonus scheme recognises the importance of high performance and is designed to reward employees for achieving targets and constantly improving overall performance, in line with our values and the various levels of responsibility and job requirements across the business. The scheme takes into account the targets that have been set by the company and then multiplies this by a personal performance rating. The company must achieve a minimum EBITDA/cash flow performance before a bonus becomes payable. The bonus payment for the 2013 financial year was finalised and paid in September 2013.

Health and safety

The Group is committed to complying with applicable health and safety legislation, and to continual improvement in achieving a high standard of health, safety and welfare in its operations and for all those in the organisation and others who may be affected by its activities. The Group operates a safety management system that is accredited to the international standard OHSAS 18001. The Directors regularly review health and safety reports in relation to the Group's activities, employees and contractors.

Creditor payment policy

The Group seeks to treat all of its suppliers fairly and it is the Group's policy to agree the terms of payment at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations. Trade creditor days are 58 days (2012: 47 days).

Arqiva's key costs are payroll, satellite capacity, rent, rates and power, and hence the majority of the Group's cost base is driven by competitive markets. Arqiva engage multiple large national suppliers for key services such as gas and electricity. This ensures not just a viable on-going cost base but reduces business risk by limiting dependency on individual suppliers.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Ownership and Directors

The Company is owned by a consortium of shareholders comprising Canada Pension Plan Investment Board (48%), Macquarie European Infrastructure Fund II (25%) plus other Macquarie managed funds (1.5%), Health Super Investments (5.4%), Industry Funds Management (14.8%) and the Motor Trades Association of Australia (5.2%). There is no ultimate controlling party of the Company, as defined by FRS 8 'Related party disclosures'.

There are two investor companies which are related parties with the Group, in accordance with FRS 8, by virtue of significant shareholding in the Group:

- Frequency Infrastructure Communications Assets Limited ('FICAL') (48%), a company controlled by the Canada Pension Plan Investment Board. The Canada Pension Plan Investment Board is a professional investment management organisation based in Toronto which invests the assets of the Canada Pension Plan. The Canada Pension Plan Investment Board was incorporated as a federal Crown corporation by an Act of Parliament in December 1997.
- Macquarie European Infrastructure Fund II ('MEIF II') (25%), an investment fund managed by the Macquarie Group. Macquarie European Infrastructure Fund II is a wholesale investment fund focusing on investments in high-quality infrastructure businesses across Europe. Macquarie Group Limited is listed in Australia (ASX:MQG ADR:MQBKY).

The Directors who oversee the Company on behalf of the shareholder consortium are as follows:

<i>Frequency Infrastructure Communications Assets Limited:</i>	<i>Macquarie European Infrastructure Fund II:</i>
- Alain Carrier	- Edward Beckley
- Daniel Fetter (resigned 9 May 2013)	- Jeremy Beeton (appointed 23 May 2013)
- Peter Douglas	- Marc Perusat (alternate) (resigned 7 April 2013)
- Robert Wall	- Nathan Luckey (alternate) (appointed 1 February 2013)
- Andreas Kottering (alternate)	
- Prakul Kaushiva (alternate) (appointed 9 May 2013)	
<i>Industry Funds Management:</i>	<i>Industry Funds Management and Motor Trades Association of Australia (joint appointment):</i>
- Christian Seymour	- Damian Walsh
- Adrianus Wamsteker (alternate)	

Peter Shore is the Group's independent Chairman. Michael Giles is the Company Secretary. For details on the background of the Directors' and the management board please refer to the company website www.arqiva.com.

Directors' indemnities

The Group maintains liability insurance for the Company Directors and officers. The Company has also provided an indemnity for its Directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Disclosure of information to the Independent Auditors

The Directors of the Company in office at the date of approval of this report confirm that:

- so far as the Directors are aware there is no relevant audit information of which the Auditors are unaware; and
- each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Other matters

Research and development

The Group performs research and development into new products and technology, the costs of which are capitalised in accordance with the Group's accounting policy where they meet the criteria for capitalisation under UK GAAP. The research costs expensed in the year were £1.9m (2012: £2.9m). In addition, the Group carries out research and development as part of its contract bid processes and these costs are expensed as part of the bid costs unless the development expenditure can be capitalised. The exceptional bid costs expensed during the year total £15.6m (2012: £2.7m).

Development costs incurred as part of capital expenditure projects which support customer contracts, are included with the total project spend within tangible fixed assets. The Group's capital expenditure in the year was £137.6m (2012: £163.6m) and includes capitalised labour of £41.7m (2012: £40.5m). Other development costs would be capitalised within intangible fixed assets. In the year, development costs capitalised total £nil (2012: £nil), with amortisation of £nil (2012: £0.2m) charged against such capitalised development costs.

Freehold land and buildings

The market value of the Group's land and buildings is lower than the carrying amount by £42.3m (2012: £68.6m), this is based upon an external valuation of the property portfolio as at 30 June 2010 uplifted by the percentage increase in the FTSE UK commercial property index to 30 June 2013. The Directors are comfortable that the carrying value of the assets in the financial statements is supported by their value in use to the business.

Overseas branches

The Group has trading branches based in the Republic of Ireland, Isle of Man and Jersey.

Post balance sheet events

There have been no events since the balance sheet date which would have a material impact on the Group and require disclosure within the financial statements under UK GAAP.

Dividends and transfers to reserves

The Company has declared no dividends in the year (2012: £nil). A Group company has declared external dividends of £0.1m (2012: £0.2m). The consolidated loss for the year of £304.4m (2012: £220.2m) was transferred to reserves.

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 prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Michael Giles - Company Secretary

Crawley Court
Crawley
Winchester
Hampshire
SO21 2QA

4 October 2013

Independent Auditors' report to the Members of Arqiva Broadcast Holdings Limited

We have audited the Group and parent company financial statements (the 'financial statements') of Arqiva Broadcast Holdings Limited for the year ended 30 June 2013, which comprise the consolidated profit and loss account, the consolidated balance sheet, the statement of group total recognised gains and losses, the consolidated cash flow statement, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the statement of Directors' responsibilities set out on page 18, 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Group's and parent 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 state of the Group's and the parent company's affairs as at 30 June 2013 and of the Group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's statement and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Alan Kinnear (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

7 October 2013

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Consolidated profit and loss account

	Note	Year ended 30 June 2013			Year ended 30 June 2012		
		Pre exceptional items £'m	Exceptional items £'m	Total £'m	Pre exceptional items £'m	Exceptional items £'m	Total £'m
Continuing operations							
Turnover (including share of joint venture):		829.2	-	829.2	843.8	-	843.8
Less: share of joint venture turnover		(8.4)	-	(8.4)	(12.1)	-	(12.1)
Group turnover	2	820.8	-	820.8	831.7	-	831.7
Cost of sales		(292.2)	-	(292.2)	(314.6)	-	(314.6)
Gross profit		528.6	-	528.6	517.1	-	517.1
Depreciation		(105.9)	-	(105.9)	(94.1)	-	(94.1)
Impairment of fixed assets		-	-	-	(5.6)	-	(5.6)
Amortisation		(159.1)	-	(159.1)	(155.2)	-	(155.2)
Other administrative expenses		(112.2)	(28.8)	(141.0)	(114.7)	(23.7)	(138.4)
Total Administrative expenses		(377.2)	(28.8)	(406.0)	(369.6)	(23.7)	(393.3)
Group operating profit	3	151.4	(28.8)	122.6	147.5	(23.7)	123.8
Share of operating profit in joint venture and associates		1.7	-	1.7	3.9	-	3.9
Total operating profit: Group and share of joint venture and associates		153.1	(28.8)	124.3	151.4	(23.7)	127.7
Income from investments		0.1	-	0.1	0.1	-	0.1
Profit on ordinary activities before taxation and interest		153.2	(28.8)	124.4	151.5	(23.7)	127.8
Interest receivable and similar income	7	2.0	-	2.0	2.3	-	2.3
Interest payable and similar charges	8	(446.7)	-	(446.7)	(365.6)	-	(365.6)
Share of joint venture interest payable		(1.0)	-	(1.0)	(2.3)	-	(2.3)
Other financing activities		-	-	-	-	1.2	1.2
Loss on ordinary activities before taxation		(292.5)	(28.8)	(321.3)	(214.1)	(22.5)	(236.6)
Tax on loss on ordinary activities	9			17.2			16.5
Loss on ordinary activities after taxation				(304.1)			(220.1)
Equity minority interests				(0.3)			(0.1)
Loss for the financial year	21			(304.4)			(220.2)

There are no material differences between losses on ordinary activities for the year above and the comparative year and their historical cost equivalents.

Consolidated balance sheet

	Note	30 June 2013 £'m	30 June 2012 £'m
Fixed assets			
Intangible assets	11	2,018.0	2,148.9
Tangible assets	12	1,658.3	1,628.7
Investments	13		
<i>Investments in joint venture</i>			
- Share of gross assets		17.0	15.7
- Share of gross liabilities		(15.8)	(15.2)
- Goodwill on acquisition		8.7	10.5
<i>Investments in associated undertakings</i>			
		0.1	0.1
		10.0	11.1
		3,686.3	3,788.7
Current assets			
Debtors	14	254.6	211.7
Cash at bank and in hand	15	149.0	329.7
Total current assets		403.6	541.4
Creditors: amounts falling due within one year	16	(682.2)	(491.8)
Net current (liabilities) / assets		(278.6)	49.6
Total assets less current liabilities		3,407.7	3,838.3
Creditors: amounts falling due after more than one year	17	(4,201.5)	(4,320.9)
Provisions for liabilities and charges	18	(54.1)	(60.5)
Net liabilities excluding pension deficit		(847.9)	(543.1)
Pension deficit	27	(2.3)	(2.3)
Net liabilities including pension deficit		(850.2)	(545.4)
Capital and reserves			
Called up share capital	19	653.9	653.9
Share premium account	20	315.6	315.6
Profit and loss reserve	21	(1,820.2)	(1,515.2)
Total shareholders' deficit	22	(850.7)	(545.7)
Minority interest		0.5	0.3
Capital employed		(850.2)	(545.4)

The accounting policies and notes on pages 25 to 53 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 October 2013 and were signed on its behalf by:


Peter Shore – Director

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Statement of group total recognised gains and losses

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
(Loss) / profit for the financial year		
- Group	(305.1)	(221.8)
- Joint Ventures	0.7	1.6
Loss for the financial year	(304.4)	(220.2)
Actuarial loss on pension scheme	(0.5)	(13.8)
Movement on deferred tax relating to pension scheme	0.1	3.3
Exchange adjustment offset in reserves (translation of foreign investments)	(0.2)	-
Total recognised losses for the year	(305.0)	(230.7)
Total recognised losses for the year		
- Group	(305.7)	(232.3)
- Joint Ventures	0.7	1.6
Total recognised losses for the year	(305.0)	(230.7)

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Consolidated cash flow statement

	Note	Year ended 30 June 2013 £'m	Year ended 30 June 2012 £'m
Net cash inflow from operating activities	23	349.0	377.6
Returns on investment and servicing of finance			
Interest received		1.6	1.1
Interest paid		(166.0)	(161.3)
Interest element of finance lease rentals		(1.1)	(1.2)
Dividends from investments		0.1	0.1
Dividends paid to minority interests		(0.1)	(0.2)
		(165.5)	(161.5)
Tax paid		(0.2)	(0.3)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(125.6)	(162.0)
Purchase of intangible fixed assets		(0.6)	-
Sale of tangible fixed assets		4.3	0.5
		(121.9)	(161.5)
Acquisitions and disposals			
Purchase of subsidiary undertakings (including payment of deferred consideration)		(29.7)	(2.1)
Overdraft acquired with subsidiary undertakings		(0.1)	-
Sale of fixed asset investments		0.2	-
		(29.6)	(2.1)
Financing			
Finance lease capital		(0.6)	(0.4)
Loans to associates and joint ventures		(0.1)	-
Repayment of external borrowings		(3,751.0)	(7.6)
Raising of external borrowings		3,734.5	232.7
Debt issue costs and facility arrangement fees		(97.2)	-
Deferred derivative close out costs cash settled		(98.1)	-
Restricted cash		(28.5)	-
		(241.0)	224.7
(Decrease) / increase in cash	24	(209.2)	276.9
Reconciliation of net cash flow to movement in net debt			
Net debt at 1 July		(3,862.4)	(3,621.3)
(Decrease) / increase in net cash		(209.2)	276.9
Movement in financing		241.0	(224.7)
Increase in restricted cash		(28.5)	-
Other non-cash changes		(104.9)	(293.3)
Net debt at 30 June	24	(3,964.0)	(3,862.4)

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Company balance sheet

	Note	30 June 2013 £'m	30 June 2012 £'m
Fixed assets			
Investments	13	1,767.0	1.0
Current assets			
Debtors (including £1.8m due after more than one year (2012: £174.6m))	14	1.8	1,425.4
Cash at bank and in hand	15	-	250.5
Total current assets		1.8	1,675.9
Creditors: amounts falling due within one year	16	-	-
Net current assets		1.8	1,675.9
Total assets less current liabilities		1,768.8	1,676.9
Capital and reserves			
Called up share capital	19	653.9	653.9
Share premium account	20	315.6	315.6
Profit and loss reserve	21	799.3	707.4
Total shareholders' funds	22	1,768.8	1,676.9

The accounting policies and notes on pages 25 to 53 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 October 2013 and were signed on its behalf by:



Peter Shore - Director

Notes to the financial statements

1 Principal accounting policies

The following accounting policies have been applied consistently in relation to the Group's and Company's financial statements:

(a) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable UK accounting standards under the historical cost convention. The Company is exempt under s408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The Company made a profit for the year of £91.9m (2012: £183.2m) prior to dividends paid of £nil (2012: £nil).

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company, as at 30 June 2013, and the results of all controlled entities for the year then ended.

Businesses acquired, previously held externally to the Group, are accounted for as acquisitions with effect from the date control passes. Those disposed of are accounted for up until the date of disposal. Intra group profits have been eliminated. Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. Associates are accounted for using the equity method of accounting in accordance with FRS 9 'Associates and joint ventures'. Joint ventures are accounted for using the gross equity method. The consolidated financial statements include the appropriate share of those undertakings' results and reserves.

(c) Going concern

The Group adopts the going concern basis in preparing its consolidated financial statements based on future profit, cash flows and available facilities, which lead the Directors of the Company to be confident that the Group will have adequate resources to continue in operational existence for the foreseeable future. During the year, the Group had a net cash inflow from operating activities of £349.0m (2012: £377.6m).

The Company is in a net asset position and has net current assets.

(d) Tangible fixed assets and depreciation

Tangible fixed assets are stated at original purchase cost (which includes costs directly attributable to bringing the assets into working condition), being fair value for tangible fixed assets acquired on acquisition, less accumulated depreciation and any provision for impairment.

In accordance with FRS 15 'Tangible fixed assets', directly attributable finance costs are capitalised where assets take a significant period of time to become ready for use.

Depreciation is provided on a straight line basis at rates calculated to write off the cost or valued amount, less estimated residual value, of assets over their estimated useful lives. The useful economic lives of the assets have been determined taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected depreciation rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances.

Asset Description	Estimated Useful Life
Freehold buildings	60 – 70 years
Leasehold buildings	Length of lease
Plant and equipment	
- Communications infrastructure network	8 – 100 years
- Network computer equipment	3 – 20 years
- Motor vehicles	3 – 5 years

Freehold land is not depreciated.

Capital work in progress is not depreciated until construction is complete and the asset is capable of operating in the manner intended by the Group in accordance with FRS 15.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

(e) Turnover

The Group's accounting policy in respect of turnover is set out in note 2.

(f) Intangible fixed assets and amortisation

Intangible fixed assets are stated at original purchase cost, being fair value for intangible fixed assets acquired on acquisition, less accumulated amortisation and any provision for impairment. The useful economic lives of intangible fixed assets are reviewed on an annual basis and revised if required, and consideration is made of whether there has been any indicator of impairment.

Research and Development costs

Development costs incurred to produce new, or substantially improved, products and services within the Group are capitalised in accordance with SSAP 13 'Accounting for research and development' and are amortised from the commencement of service over the life of the relevant contract. Research costs, experimental or theoretical work undertaken which does not constitute development, are expensed as incurred.

Licences

Licences acquired to provide radio and WiFi services are capitalised and amortised on a straight line basis over their licence period.

Goodwill

Purchased goodwill is capitalised and amortised on a straight line basis over its estimated useful life, which is considered to be no longer than 20 years. The Group capitalises costs associated with the acquisition of subsidiaries within goodwill.

Access rights

Access rights include customer contracts and customer relationships and are stated at original purchase cost, being fair value for acquired subsidiaries, and amortised on a straight line basis over their expected useful life.

(g) Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment in value, in accordance with FRS 11 'Impairment of fixed assets and goodwill'.

(h) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction except in the case of certain financing transactions where hedging arrangements are in place and transactions are recorded at the contracted rate. Monetary assets and liabilities denoted in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date or contracted rate if applicable and any exchange difference arising are taken to the profit and loss account. Transactions in the profit and loss account of overseas operations are translated using an average exchange rate. Exchange differences on translation of overseas operations are recognised through the 'Statement of group total recognised gains and losses'.

(i) Leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and depreciated over their useful economic lives or the lease term, if shorter.

The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

Operating lease payments for assets leased from third parties are charged to the profit and loss account on a straight line basis over the period of the lease.

Equipment leased to customers under finance leases is deemed to be sold at normal selling price and this value is taken to turnover at the inception of the lease. Debtors under finance leases represent outstanding amounts due under these agreements, less finance charges allocated to future periods. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

(j) Taxation and deferred taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided fully in respect of all timing differences using the liability method for timing differences where there is an obligation to pay more tax, or a right to pay less tax, in the future. The provision is calculated using the rates expected to be applicable when the asset or liability crystallises based on current tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when it is more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of timing differences can be deducted. Deferred tax is not recognised on revalued fixed assets until a binding agreement is in place to sell such assets and the resulting gain or loss has been recognised in the financial statements. Deferred tax is measured on an undiscounted basis.

(k) Provisions

The provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Decommissioning provisions are recognised within provisions for liabilities and charges and included within fixed assets, where the costs of dismantling assets are considered material. The amounts recognised within fixed assets are depreciated over the useful economic life of the asset. The provisions are discounted to reflect the time value of money where material.

(l) Borrowings

Borrowings are stated at their issue proceeds, net of issue costs, less amounts repaid. Issue costs are amortised over the term of the borrowing to achieve a constant rate on the carrying amount. Interest on the borrowings is recognised as an expense as it accrues over the period of the loan, unless capitalised as noted in policy (d).

(m) Post retirement benefits

Defined contribution schemes

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Defined benefit schemes

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and terms to the scheme liabilities. Any defined benefit asset or liability is presented separately on the face of the balance sheet and net of deferred tax.

(n) Cash at bank and in hand

Cash at bank and overnight deposits are disclosed within cash at bank.

(o) Interest

Interest income and expense are accounted for on an accruals basis and comprise amounts receivable on deposits and payable on borrowings and finance leases.

(p) Derivative financial instruments

The Group uses interest rate and inflation swaps to reduce its exposure to fluctuations in variable interest rates on its debt. Receipts, payments and accreting liabilities on interest rate and inflation swaps are recognised on an accruals basis, over the life of the instrument. Changes in the fair value of such derivatives are not recognised. Amounts received and paid under interest rate and inflation swaps are shown net under financing costs, where they are part of the same legal agreement and settled net in practice. The Group utilises forward foreign exchange contracts to hedge the value of its foreign currency transactions. In addition, the Group utilises cross currency swaps to hedge the principal and interest payments due under the USD tranche of the Private

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Placement against variations in foreign exchange and interest rates. The changes in the fair value of such derivatives are not recognised, and the gain or loss on settlement is taken to the profit and loss account.

Upon its refinancing in February 2013 the Group terminated certain interest rate swap arrangements. The economic substance of these transactions reflected the overall hedging strategy of the Group from the original debt raising and the subsequent refinancing. As such the termination costs have been deferred and netted against the financing liability and are to be amortised to finance costs in the profit and loss account over the term of the new fixed rate debt and are classified as derivative close out costs.

(q) Share issue costs

In accordance with the provision contained in FRS 4 'Capital instruments', all issue costs (as defined within the meaning of FRS 4) are accounted for as a deduction in the proceeds of the relevant capital instruments.

2 Turnover and segmental reporting

Turnover, which is stated net of value added tax, includes the value of charges made for transmission services, distribution services, products, facilities leasing, research and development contracts, external network services to national and international telecommunication operators, other contracts, rents from properties and charges made under site sharing agreements.

Turnover is recognised as services are provided. Cash received or invoices raised in advance is taken to deferred income and recognised as turnover when service is provided. Where consideration received in advance is discounted, the effect of the time value of money, where material, is reflected within turnover and interest payable and similar charges. Turnover recognised in advance of cash received or invoices raised is taken to accrued income.

The geographical split of turnover by destination is shown below:

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
UK	728.5	724.8
Continental Europe (including Republic of Ireland)	55.0	64.4
Rest of World	37.3	42.5
Group turnover	820.8	831.7

Segmental reporting

The Group has organised its business into three customer facing business units, supported by an operations division and central corporate functions. This structure is used to provide the following segmental reporting in relation to Group turnover.

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
Broadcast and Media		
- Terrestrial broadcast	284.0	267.0
- Satellite	170.7	197.4
Digital Platforms	132.0	121.6
Telecoms	234.1	245.7
Group turnover	820.8	831.7

The majority of assets employed and underlying costs are derived from a shared infrastructure network common to all operating business units. An allocation of such assets or costs to the business units is not performed as part of the normal reporting process within the business. In the absence of a suitable allocation methodology and given the size of the shared assets and costs, the Directors are of the opinion that additional segmental reporting would not provide meaningful information to the users of the financial statements and would therefore not be in the best interests of the Group.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

3 Operating profit

Operating profit is stated after charging / (crediting):

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
Depreciation of owned fixed assets	105.5	93.6
Impairment of owned fixed assets	-	5.6
Depreciation of assets held under finance lease	0.4	0.5
Amortisation of goodwill in respect of subsidiaries	155.3	153.2
Amortisation of intangible assets	2.0	2.0
Amortisation of investments in joint ventures	1.8	-
Operating lease rentals:		
- Land, buildings and other infrastructure	41.2	42.3
- Plant and machinery	1.6	1.6
Loss on disposal of tangible fixed assets	1.9	0.3
Foreign exchange (gains) / losses	(1.5)	1.2
Grant income	(0.7)	(0.3)

Services provided by the Group's Auditors and network firms

During the year the Group obtained the following services from the Group's Auditors at costs as detailed below:

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
Fees payable to Company Auditors for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable for the audit of the Company's subsidiaries	0.3	0.4
Non-audit services		
Other assurance services	0.2	0.2
Services relating to taxation	0.1	0.1
Services relating to corporate finance (including refinancing)	1.8	0.2
All other services	0.2	0.2
Total cost of services provided by the Group's Auditors	2.7	1.2

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

4 Exceptional items

Loss on ordinary activities before taxation is stated after (charging) / crediting:

	Group Year ended 30 June 2013	Group Year ended 30 June 2012
	£'m	£'m
Administrative expenses		
- Reorganisation and severance	(7.3)	(10.8)
- Corporate finance activities (including refinancing)	(3.6)	(5.4)
- Contract bid costs relating to Smart Metering	(15.6)	(2.7)
- Other one off activities	(2.3)	(4.8)
	(28.8)	(23.7)
Financing activities		
- Non-cash gain on the early settlement of a financial liability	-	1.2
	(28.8)	(22.5)
Total exceptional items	(28.8)	(22.5)

Reorganisation and severance costs in the year ended 30 June 2013 primarily represent amounts provided in relation to the business efficiency and process changes. The costs in the year ended 30 June 2012 primarily related to the closure of the Group's Warwick offices.

Corporate finance activities relate to early refinancing costs and the costs of employees working specifically on the refinancing process which have not been included within debt issue costs in line with UK GAAP.

Other one off activities includes substantial costs relating to other business change projects.

The above amounts are deductible / chargeable for the purpose of taxation. The aggregate tax impact of these items was a tax deduction of £6.8m (2012: a tax deduction of £5.7m).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

5 Staff costs

The Company had no employees during the year (2012: none). The average monthly number of persons employed by the Group during the year was as follows:

	Group Year ended 30 June 2013	Group Year ended 30 June 2012
	Number	Number
Broadcast and Media	199	245
Digital Platforms	23	18
Telecoms	243	162
Business Operations	1,095	1,160
Corporate Support	344	313
Total staff numbers	1,904	1,898

The aggregate payroll costs of these persons were as follows:

	Group Year ended 30 June 2013	Group Year ended 30 June 2012
	£'m	£'m
Wages and salaries	117.5	117.8
Social security costs	12.4	12.3
Other pension costs	9.9	9.6
Total staff costs	139.8	139.7

6 Directors' emoluments

During the year one Director (2012: two) was an employee of Arqiva Limited (a subsidiary company), who was not a member of any group pension scheme.

One of the Directors (2012: one) was a representative of the Company's shareholders and their individual remuneration reflects the services they provide to the Company, its subsidiaries and certain other entities outside of the Group. It is possible to make an accurate apportionment of the Director's emoluments in respect of their service to the Group. Accordingly, this is taken into account in providing the following disclosure:

	Group Year ended 30 June 2013	Group Year ended 30 June 2012
	£'m	£'m
Aggregate emoluments	0.3	0.2
Contributions to defined contribution pension schemes	-	-
Sums paid to third parties in respect of services	0.1	-
Total emoluments	0.4	0.2

All other Directors were representatives of the Company's shareholders and their individual remuneration reflects the services they provide to the Company, its subsidiaries and a number of other entities outside of the Group. It is therefore not possible to make an accurate apportionment of each Director's emoluments in respect of each of their service to the Company and the Group except where sums are paid to third parties in respect of services. Accordingly, the details set out in the table above include no emoluments in respect of these Directors other than in relation to sums paid to third parties in respect of services.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Highest paid director

Included in the above are emoluments in respect of the highest paid Director of:

	Group Year ended 30 June 2013 £'m
Aggregate emoluments	0.3
Total emoluments	<u>0.3</u>

7 Interest receivable and similar income

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
Bank interest	1.3	0.8
Finance lease interest receivable	0.3	0.3
Other interest	0.4	1.2
Total interest receivable	<u>2.0</u>	<u>2.3</u>

8 Interest payable and similar charges

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
Bank loan interest	204.6	215.5
Other loan interest	30.8	-
Less: Capitalised interest	(0.2)	(1.9)
Net bank and other loan interest	<u>235.2</u>	<u>213.6</u>
Amortisation of debt issue costs	36.2	16.6
Release of deferred derivative close out costs	3.1	-
Finance lease interest	1.1	1.2
Shareholder loan note interest	154.7	120.4
Other interest	16.4	13.8
Total interest payable	<u>446.7</u>	<u>365.6</u>

Included within bank loan interest is the increase in the accrued liabilities on the Group's inflation swaps of £51.5m (2012: £54.1m) (see note 17). Excluding this amount the net bank loan interest was £183.7m (2012: £159.5m).

The shareholder loan notes carry fixed interest rates of between 13% and 14%, which can be deferred at the option of the Group.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

9 Tax on loss on ordinary activities

	Group Year ended 30 June 2013 £'m	Group Year ended 30 June 2012 £'m
(a) Analysis of tax credit for the year		
Current tax		
UK corporation tax	0.1	0.2
Overseas tax	0.3	0.4
Total current tax	0.4	0.6
Deferred tax		
Origination and reversal of timing differences	(16.8)	(14.6)
Deferred tax on pension liability charged to profit and loss account	0.1	1.7
Impact of rate change	0.7	0.1
Prior year adjustment	(1.6)	(4.3)
Total deferred tax	(17.6)	(17.1)
Tax on loss on ordinary activities	(17.2)	(16.5)
(b) Factors affecting the current tax charge for the year:		
The tax charge assessed for the year is different to the standard rate of tax in the UK of 23.75% (2012: 25.5%). The differences are explained below:		
Loss on ordinary activities before taxation	(321.3)	(236.6)
Loss before taxation multiplied by standard rate of corporation tax in the United Kingdom of 23.75% (2012: 25.5%)	(76.3)	(60.3)
Expenses not deductible for tax purposes	1.0	1.0
Amortisation of goodwill	37.3	39.1
Depreciation in excess of capital allowances	19.9	18.8
Non qualifying depreciation	5.2	6.5
Non-deductible loan note interest	10.2	4.5
Prior period interest now deductible	-	(16.6)
Associate / joint venture revenue / expense with no tax applicable	(0.4)	(0.4)
Income not subject to corporation tax	(0.3)	(2.1)
Generation of unrecognised tax losses	6.4	13.2
Utilisation of recognised tax losses	(1.4)	(1.0)
Other timing differences	(1.6)	(2.2)
Loss on disposal of fixed assets	0.4	0.1
Total current tax	0.4	0.6

The UK corporation tax rate was reduced from 24% to 23% effective from 1 April 2013. For the purpose of this tax reconciliation a blended tax rate of 23.75% has been used.

There has been a stated intention to reduce the UK corporation tax rate in future years (see note 14).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

10 Dividends

Dividends payable to minority interests	Group	Group
	Year ended 30 June 2013	Year ended 30 June 2012
	£'000	£'000
Now Digital (East Midlands) Limited	119	143
Interim dividend declared 21 March 2013 of £25.00 per share (2012: of £30.00 per share)		
South West Digital Radio Limited	20	33
Interim dividend declared on 21 March 2013 of £6.00 per share (2012 of £10.00 per share)		
Total dividends payable to minority interests	139	176

The above amounts represent dividends paid to minority interest shareholders by Group companies. No dividends were paid to ABHL shareholders.

11 Intangible assets

Group	Licences	Development costs	Access rights	Goodwill	Total
	£'m	£'m	£'m	£'m	£'m
Cost					
At 1 July 2012	3.6	1.0	15.4	3,048.1	3,068.1
Additions	1.0	-	7.7	17.7	26.4
At 30 June 2013	4.6	1.0	23.1	3,065.8	3,094.5
Accumulated amortisation					
At 1 July 2012	2.1	1.0	14.3	901.8	919.2
Charged in the year	0.5	-	1.5	155.3	157.3
At 30 June 2013	2.6	1.0	15.8	1,057.1	1,076.5
Net book value					
At 30 June 2013	2.0	-	7.3	2,008.7	2,018.0
At 30 June 2012	1.5	-	1.1	2,146.3	2,148.9

Development costs in respect of products and services that are being developed by the Group are being capitalised in accordance with SSAP 13. These are amortised over their expected useful life once the product or service has been commercially launched.

Purchased goodwill arose in the year on the purchase of Spectrum Interactive Limited and Connect TV Limited, and their respective subsidiaries.

The Company has no intangible assets (2012: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Acquisition of the Spectrum Interactive Group

On 30 July 2012 the Group acquired 100% of the share capital of Spectrum Interactive Limited. As part of the same transaction the Group also acquired 100% of the share capital of Arqiva WiFi Limited (formerly Spectrum Interactive (UK) Limited); NWP Street Limited; NWP Spectrum Holdings Limited and Spectrum Interactive (UK) Limited (formerly Arqiva WiFi Limited and UK Explorer Limited) and 50% of the share capital of Selective Media Limited (see below). The Spectrum Interactive Limited group provides WiFi services, public internet desks and managed payphones and Selective Media Limited provides location based advertising.

During the period from acquisition to 30 June 2013, the acquired companies reported the following results :

	£'m
Turnover	10.9
Cost of sales	(6.6)
Administrative expenses (excluding depreciation and amortisation)	(3.4)
EBITDA	0.9

Disclosure of the impact of the acquisition on the cash flow is not made on the grounds of materiality.

The fair value of assets and liabilities acquired is as follows:

	Book value	Adjustments	Fair value
	£'m	£'m	£'m
Tangible fixed assets	2.3	1.8	4.1
Intangible fixed assets	0.4	7.7	8.1
Deferred tax asset	1.3	(0.4)	0.9
Bank and cash	(0.1)	-	(0.1)
Debtors	1.5	-	1.5
Creditors	(3.9)	-	(3.9)
Loans and finance leases	(0.1)	-	(0.1)
Provisions	(0.1)	-	(0.1)
Net assets acquired	1.3	9.1	10.4
Goodwill			13.7
Cash consideration			23.6
Acquisition fees			0.5
Total consideration			24.1

The book values of the assets and liabilities have been taken from the accounts as at acquisition. An initial assessment of the fair values of assets and liabilities at acquisition was conducted during the period, resulting in a net positive fair value adjustment of £9.1m.

On 2 May 2013, the Group acquired the remaining 50% of the share capital of Selective Media Limited. Consideration paid was £0.3m and after allowing for other acquisition costs and an estimated fair value of net liabilities acquired, this acquisition gave rise to a goodwill balance of £0.3m.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Acquisition of the Connect TV Group

On 4 September 2012 the Group acquired 100% of the share capital of Connect TV Limited. As part of the same transaction the Group also acquired 100% of the share capital of Connect TV (Scotland) Limited. The principal activity of the Group is that of TV programme distribution activities.

Disclosure of the impact of the acquisition on the results and cash flow are not made on the grounds of materiality.

The fair value of assets and liabilities acquired is as follows:

	Book value	Adjustments	Fair value
	£'m	£'m	£'m
Debtors	0.4	-	0.4
Creditors	(0.3)	-	(0.3)
Net assets acquired	0.1	-	0.1
Goodwill			3.7
Cash consideration			3.7
Acquisition fees			0.1
Total consideration			3.8

The book values of the assets and liabilities have been taken from the accounts as at acquisition, and there were no material fair value adjustments.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

12 Tangible assets

Group	Freehold land and buildings	Leasehold buildings	Plant and equipment	Assets under the course of construction (AUC)	Total
	£'m	£'m	£'m	£'m	£'m
Cost					
At 1 July 2012*	323.6	108.7	1,426.9	167.5	2,026.7
Acquisitions	-	-	4.1	-	4.1
Additions to AUC	-	-	-	137.6	137.6
Completion of AUC	8.1	6.4	89.5	(104.0)	-
Disposals	(3.1)	(1.0)	(36.6)	(0.5)	(41.2)
At 30 June 2013	328.6	114.1	1,483.9	200.6	2,127.2
Accumulated depreciation					
At 1 July 2012*	31.0	18.3	348.7	-	398.0
Charge for the year	3.9	3.0	99.0	-	105.9
Disposals	(3.0)	(0.8)	(31.2)	-	(35.0)
At 30 June 2013	31.9	20.5	416.5	-	468.9
Net book value					
At 30 June 2013	296.7	93.6	1,067.4	200.6	1,658.3
At 30 June 2012*	292.6	90.4	1,078.2	167.5	1,628.7

* Opening balances have been restated for reclassifications between categories, following a review of the structure of asset categories in the underlying asset registers, and to classify assets under the course of construction under a separate heading in line with best practice guidance. These reclassifications have no impact on the total cost, accumulated depreciation or net book value as previously reported.

The Group's fixed and other assets have been pledged as security under the terms of the Group's external debt facilities (see note 26).

Borrowing costs relating to the DSO project were capitalised during the year totalling £0.2m (2012: £1.9m) at a capitalisation rate of 3.5% (2012: 2.7%). The aggregate amount of finance costs included in the cost of tangible fixed assets totals £20.5m (2012: £20.3m).

Plant and equipment additions of £4.1m relate to the acquisition of assets as part of the purchase of Spectrum Interactive Limited (see note 11).

Freehold land included above but not depreciated amounts to £86.7m (2012: £84.2m).

Assets held under finance leases, capitalised and included within fixed assets are shown in the table below:

	Land and buildings
	£'m
Cost	10.9
Accumulated depreciation	(3.3)
Net book value	
At 30 June 2013	7.6
At 30 June 2012	8.0

The Company has no tangible fixed assets (2012: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

13 Investments

The Company's significant investments (held indirectly unless stated) are shown below:

Company	Country of incorporation	Principal activities	Year end	Percentage of ordinary shares held
Arqiva Financing No. 3 Plc - held directly	United Kingdom	Holding company	30-Jun	99.99%
Arqiva Broadcast Parent Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Broadcast Finance Plc	United Kingdom	Financing vehicle	30-Jun	100%
Arqiva Financing No. 2 Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Broadcast Intermediate Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Group Parent Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Group Intermediate Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Senior Finance Limited	United Kingdom	Financing vehicle	30-Jun	100%
Arqiva Financing Plc	United Kingdom	Financing vehicle	30-Jun	100%
Arqiva Financing No. 1 Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva PP Financing Plc	United Kingdom	Financing vehicle	30-Jun	100%
Arqiva Group Holdings Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva UK Broadcast Holdings Limited	United Kingdom	Holding company	30-Jun	100%
ABHL Digital Limited (formerly MUKBL Digital Limited)	United Kingdom	Holding company	30-Jun	100%
ABHL Digital Radio Limited (formerly MUKBL Digital Radio Limited)	United Kingdom	Holding company	30-Jun	100%
Arqiva Limited	United Kingdom	Transmission services	30-Jun	100%
Arqiva Inc	USA	Satellite transmission services	30-Jun	100%
Arqiva SRL	Italy	Satellite transmission services	30-Jun	100%
Arqiva SAS	France	Satellite transmission services	30-Jun	100%
Arqiva Pte Limited	Singapore	Satellite transmission services	30-Jun	100%
Arqiva Telecoms Investment Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Holdings Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva Services Limited	United Kingdom	Transmission services	30-Jun	100%
Arqiva No 2 Limited	United Kingdom	Transmission services	30-Jun	100%
Arqiva No 3 Limited	United Kingdom	Transmission services	30-Jun	100%
Lattice Telecommunications Asset Development Company Limited	United Kingdom	Telecommunications infrastructure	30-Jun	100%
Arqiva Aerial Sites Limited	United Kingdom	Management of aerial sites	30-Jun	100%
Connect TV Limited	United Kingdom	Transmission services	30-Jun	100%
Spectrum Interactive Limited	United Kingdom	Holding company	30-Jun	100%
Arqiva WiFi Limited (formerly Spectrum Interactive (UK) Limited)	United Kingdom	WiFi services	30-Jun	100%
NWP Street Limited	United Kingdom	WiFi services	30-Jun	100%
Selective Media Limited	United Kingdom	WiFi services	30-Jun	100%
Digital One Limited	United Kingdom	Transmission services	30-Jun	100%
Now Digital Limited	United Kingdom	Transmission services	30-Jun	100%
Now Digital (Southern) Limited	United Kingdom	Transmission services	30-Jun	100%
Now Digital (East Midlands) Limited	United Kingdom	Transmission services	30-Jun	52.50%
South West Digital Radio Limited	United Kingdom	Transmission services	30-Jun	66.67%
Primrose No.1 Limited – held directly	United Kingdom	Investment company	30-Jun	100%
Company	Country of incorporation	Principal activities	Year end	Percentage of ordinary shares held
Joint ventures				
Arts Alliance Media Investment Limited	British Virgin Islands	Digital cinema distribution	30-Jun	24.99%
YouView TV Limited	United Kingdom	Open source IPTV development	31-Mar	14.30%
Associate undertakings:				
Muxco Limited	United Kingdom	Bidding for UK DAB digital radio multiplex licences	31-Dec	25%
DTV Services Limited	United Kingdom	Free view market services co-ordination	31-May	20%

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The following companies within the Group will adopt the Department for Business, Innovation and Skills audit exemption for the year ended 30 June 2013. As the ultimate parent company, ABHL will guarantee the various debts and liabilities held within these companies as required under Section 479C of the Companies Act.

Company	Company registration number
Arqiva Broadcast Intermediate Limited	8085710
Arqiva Group Intermediate Limited	8126989
Arqiva Group Holdings Limited	8221064
Arqiva UK Broadcast Holdings Limited	5254048
Arqiva Telecoms Investment Limited	3696564
Arqiva Swing Limited	7140424
JFMG Limited	3297317
Arqiva Mobile TV Limited	4107732
Arqiva Public Safety Limited	3341257
Aerial UK Limited	2333949
Primrose No.1 Limited	07046887
Arqiva Scotland Limited	SC365509
Arqiva Aerial Sites Limited	1460772
ABHL Digital Limited (formerly MUKBL Digital Limited)	3538787
ABHL Digital Radio Limited (formerly MUKBL Digital Radio Limited)	3573732
Digital One Limited	3537636
Now Digital Limited	3546921
Now Digital (Oxford) Limited	6314242
Now Digital (Southern) Limited	3654065
Connect TV Limited	07403839

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Group	Investments in associates and joint ventures £'m	Investment in financial instruments £'m	Total £'m
Investments			
At 1 July 2012	11.1	3.0	14.1
Share of retained profit	0.7	-	0.7
At 30 June 2013	11.8	3.0	14.8
Provision for impairment			
At 1 July 2012 and 30 June 2013	-	(3.0)	(3.0)
Accumulated amortisation			
At 1 July 2012	-	-	-
Charged in the year	1.8	-	1.8
At 30 June 2013	1.8	-	1.8
Net book value			
At 30 June 2013	10.0	-	10.0
At 30 June 2012	11.1	-	11.1

The Directors believe that the carrying values of the investments are supported by the underlying trade and net assets.

Company	Investments in subsidiaries £'m	Investment in financial instruments £'m	Total £'m
Cost			
At 1 July 2012	1.0	3.0	4.0
Additions	1,766.0	-	1,766.0
At 30 June 2013	1,767.0	3.0	1,770.0
Provision for impairment			
At 1 July 2012 and 30 June 2013	-	(3.0)	(3.0)
Net book value			
At 30 June 2013	1,767.0	-	1,767.0
At 30 June 2012	1.0	-	1.0

Company

As part of the Group's refinancing, the Company waived a £1,701.0m intercompany receivable balance and made a gift of £64.8m in relation to its subsidiary, Arqiva Financing No 3 Plc ('AF3'). Additional gifts totalling £0.2m were made to indirect subsidiaries of the Company. The Company has treated this as a capital contribution and increased its investment in AF3 accordingly.

The Directors believe that the carrying values of the investments are supported by the underlying trade and net assets.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

14 Debtors

	Group 30 June 2013 £'m	Group 30 June 2012 £'m	Company 30 June 2013 £'m	Company 30 June 2012 £'m
Trade debtors	89.8	84.8	-	-
Amounts owed by Group undertakings	-	-	1.8	1,425.4
Amounts owed by joint ventures (note 28)	0.1	-	-	-
Other debtors	7.5	10.1	-	-
Prepayments and accrued income	122.0	100.2	-	-
Deferred tax asset	35.2	16.6	-	-
Total debtors	254.6	211.7	1.8	1,425.4

Included within prepayments is £16.6m (2012: £nil) relating to arrangement fees on undrawn facilities.

The Directors consider that the fair value of debtors closely approximates to book value.

Deferred tax asset	Group 30 June 2013 Asset £'m	Group 30 June 2012 Asset £'m
At 1 July	16.6	(2.2)
Credited to the profit and loss account	17.7	18.8
On acquisition (see note 11)	0.9	-
At 30 June	35.2	16.6
Accelerated capital allowances	29.5	8.1
Short term timing differences	0.6	0.7
Tax losses	5.1	7.8
Deferred tax asset	35.2	16.6

The deferred tax asset of £35.2m has been calculated based on the UK corporation tax rate of 23% (the rate in force at the balance sheet date). There has also been a stated intention to reduce the UK corporation tax rate to 20% by April 2015 by a number of changes in the UK corporation tax rate; these changes have not been substantively enacted.

There is an unrecognised deferred tax asset of £31.0m (2012: £32.3m) in respect of tax losses which are not anticipated to be utilised in the foreseeable future. This unrecognised deferred tax asset is anticipated to be utilised when there is taxable income in the relevant Group entities to utilise the losses previously generated. The recognised deferred tax asset is forecast to be utilised against future taxable profits forecast to arise in the Group.

Finance leases

Included within 'other debtors' are the following amounts receivable under finance leases:

	Group 30 June 2013 £'m	Group 30 June 2012 £'m
Net investment in finance leases and hire purchase contracts comprises:		
Total amounts receivable	5.2	5.6
Less: Interest allocated to future years	(2.0)	(2.3)
Total finance leases	3.2	3.3

Rentals receivable during the year under finance leases and hire purchase contracts amount to £0.4m (2012: £0.4m).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Company

Amounts owed by Group undertakings are unsecured. Interest has been charged on £1.8m at 0% (2012: £1,039.0m at 9.75%, £384.5m at 18% and £1.9m at 0%). Of the above balances, £1.8m is in respect of amounts due in greater than one year (2012: £174.6m at 9.75%).

15 Cash at bank and in hand

	Group 30 June 2013 £'m	Group 30 June 2012 £'m	Company 30 June 2013 £'m	Company 30 June 2012 £'m
Cash at bank	12.6	5.5	-	0.1
Short term deposits	107.9	324.2	-	250.4
Cash at bank and in hand	120.5	329.7	-	250.5
Restricted cash	28.5	-	-	-
Total cash at bank and in hand	149.0	329.7	-	250.5

The restricted cash balance relates to a reserve account required to cover one semi annual interest payment on the £600.0m of junior bonds due in 2020.

The retained cash balances held by the Company were used at the time of the Group's refinancing to repay previous bank facilities.

16 Creditors: amounts falling due within one year

	Group 30 June 2013 £'m	Group 30 June 2012 £'m
Trade creditors	68.4	65.4
Other taxes and social security costs	15.2	12.1
Other creditors	9.3	16.3
Accruals and deferred income	588.8	397.5
Finance lease obligations	0.5	0.5
Total creditors: amounts falling due within one year	682.2	491.8

The Directors consider that the fair value of creditors: amounts falling due within one year closely approximates to book value.

Included within accruals and deferred income is £297.5m (2012: £142.8m) in relation to accrued interest on shareholder loan notes.

The Company has no creditors: amounts falling due within one year (2012: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

17 Creditors: amounts falling due after more than one year

	Group 30 June 2013 £'m	Group 30 June 2012 £'m
Bank loans		
Senior debt	1,186.0	2,748.8
Junior debt	-	315.7
Accrued liability on inflation rate swap	20.2	255.2
Less: issue costs	(31.7)	(16.6)
	<u>1,174.5</u>	<u>3,303.1</u>
Other loans		
Senior bonds	1,148.5	-
Junior bonds	600.0	-
Less: issue costs	(31.8)	-
Deferred derivative close out costs	(95.0)	-
	<u>1,621.7</u>	<u>-</u>
Shareholder loan notes	1,273.9	874.0
Other creditors	1.2	1.7
Accruals and deferred income	116.2	127.6
Finance lease obligations	14.0	14.5
	<u>4,201.5</u>	<u>4,320.9</u>
Total creditors: amounts falling due after more than one year	4,201.5	4,320.9

The deferred derivative close out costs relate to costs incurred in February 2013 on the termination of interest rate swap instruments pursuant to the Group's refinancing and are deferred to reflect the economic substance of the Group's original hedging strategy.

Shareholder loan notes

Previously, all shareholder loan notes carried a fixed interest rate of 13% which could be deferred at the option of the Group, applicable to the capital and unpaid interest. The Group had exercised this option with effect from June 2009. These shareholder loan notes were repayable on 31 December 2017.

As part of the Group's refinancing in February 2013, additional shareholder loan notes of £400.0m were raised carrying an interest rate of 14% and are repayable in March 2021. The maturity dates on the existing Shareholder loan notes were also extended and are now repayable in March 2022. The Group continues to exercise the option to defer interest arising on the shareholder loan notes.

All shareholder loan notes are unsecured and are listed on the Channel Islands Stock Exchange and cannot be called upon early.

Maturity of loans

The total loans analysed below represent total creditors: amounts falling due after more than one year before issue costs, deferred derivative close out costs, accruals and deferred income, and other creditors, but including finance lease obligations falling due within one year (see note 16).

	Group 30 June 2013 £'m	Group 30 June 2012 £'m
Within one year	0.5	0.5
In more than one year, but not more than five years	1,207.7	3,321.3
In more than five years	3,034.9	886.9
Total loans	4,243.1	4,208.7

The Company has no creditors: amounts falling due after more than one year (2012: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Finance leases

Future minimum payments under finance leases are as follows:

	Group 30 June 2013 £'m	Group 30 June 2012 £'m
Within one year	1.6	1.6
In more than one year, but not more than five years	5.5	5.7
After five years	19.3	20.7
Total gross payments	26.4	28.0
Less finance charges included above	(11.9)	(13.0)
Total finance leases	14.5	15.0

Bank loans and other loans

The Group's external financing was previously provided by a syndicate of lenders under senior and junior loan facilities which were arranged in 2007 and were due for repayment at various dates from July 2014 to July 2015. In February 2013, the Group closed its refinancing raising funds from both bank facilities and bond markets. These funds together with further funds advanced by the ABHL shareholders facilitated the repayment of previous bank facilities. In June 2013, the Group raised additional funds from a US Private Placement, the proceeds of which have been applied to the term bank loans.

Previously, all senior bank debt represented amounts borrowed by Arqiva Financing No 1 Limited ('AF1') under a Senior Facility Agreement, dated 3 April 2007, with a total facility of £2,925.0m. The working capital facility of £75.0m was a component of this senior debt facility. The loans had floating interest rates which ranged between LIBOR + 2.00% to LIBOR + 2.75%. The senior debt was repayable between 1 July 2014 and 1 December 2014.

All junior bank debt represented amounts borrowed by Arqiva Financing No 2 Limited ('AF2') under a Junior Facility Agreement, dated 3 April 2007, with a total facility of £475.0m. The loans had floating interest rates which ranged between LIBOR + 4.50% to LIBOR + 5.00%. The junior debt was repayable on 1 July 2015.

The senior and junior debt had certain covenants attached, principally an interest cover ratio and a debt leverage ratio, and were secured by way of a fixed and floating charge over the Group's assets. The Group continued to comply with all covenant requirements during the period.

Following refinancing, all senior bank debt represents amounts borrowed by Arqiva Senior Finance Limited ('ASF') under a Senior Facility Agreement, under which £1,586.0m was drawn at 28 February 2013. On 27 June 2013, £400.0m of this facility was repaid. AF1 has further undrawn facilities of £700.0m available. The loans have floating interest rates which range between LIBOR + 2.25% to LIBOR + 2.75% during the initial three years of the facility, increasing to LIBOR + 4.00% by the end of the agreement. The senior debt is for terms of three and five years.

Senior bonds include amounts raised from the issuance of £750.0m Notes by Arqiva Financing Plc ('AF') rated BBB by Standard & Poors and Fitch on 22 February 2013. These Notes have fixed interest rates which range between 4.04% and 4.882% and are repayable between June 2020 and December 2032. These Notes are listed on the London Market.

The remaining senior bonds were raised on 27 June 2013 by Arqiva PP Financing Plc ('APPF') through a US Private Placement transaction raising £398.5m in a combined sterling and US dollar denominated offering. The proceeds of this offering have been applied to the early repayment of the medium term bank loans referred to above. These Notes have fixed interest rates which range between 4.101% and 4.420% and have amortising repayment profiles commencing December 2018 with an end maturity date of June 2025.

All junior bonds represent amounts raised from the issuance of Notes by Arqiva Broadcast Finance Plc ('ABF'). These Notes have a fixed interest rate of 9.5% and are repayable in March 2020. These Notes are listed on the Luxembourg Market.

These financing instruments have certain covenants attached, principally an interest cover ratio and a debt leverage ratio, and benefit from security over substantially all of the Group's assets under a Whole Business Securitisation structure. The Group continues to comply with all covenant requirements.

Derivative financial instruments

Prior to refinancing, the Group had interest rate swaps and inflation swap agreements covering a total notional value of £2,625.0m in order to hedge its exposure to variable interest rates. £1,312.5m of the variable rate debt had been hedged via interest rate swaps and £1,312.5m had been hedged via RPI linked swaps. The swaps had a mandatory break clause at the earlier of any refinancing of the Group's senior facilities or April 2014. At refinancing, the Group terminated £289.3m of existing interest rate swaps and restructured the remaining £2,335.7m of interest rate and inflation swaps.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

£1,023.2m of variable rate debt is now hedged via two classes of interest rate swaps at an average fixed rate of 5.7926%. The interest rate swaps have 3 year and 5 year mandatory break clauses co-terminus with the variable rate bank debt.

£1,312.5m of fixed and variable rate debt is hedged via three classes of inflation linked swaps which fix interest at an average rate of 2.9498% indexed with RPI. In addition, the principal amount of these swaps increases with RPI. One class of these swaps with a nominal value of £235.0m has a 10 year mandatory break clause, whilst the remaining two classes are break free. The maturity date for all three classes of inflation swaps is April 2027. The accrued principal accretion on inflation linked swaps as at 28 February 2013 amounting to £286.5m was paid at the refinancing date.

During the period, the Group purchased Swap Options with a total principal value equal to the current interest rate swaps (£1,023.2m). The options are exercisable at maturity in 3 years and 5 years, (co-terminus with the interest rate swaps and floating rate bank debt) and hedge the Group's exposure for the duration of the interest rate swaps to a decline in LIBOR below 1% at the point of the mandatory breaks in 3 and 5 years' time.

On 27 June 2013, AF1 entered into a further £398.5m of Floating / Fixed Interest Rate Swaps to overlay the above RPI swaps, amending the cash flow characteristics to align to the fixed coupon payable on the £398.5m Private Placement Notes issued by APPF. In addition, AF1 entered into USD 358.0m of cross-currency swaps to fix the Sterling cost of all future interest and capital repayment obligations relating to the USD tranche of the Private Placement at an exchange rate of 1.52.

An amount of £20.2m (2012: £255.2m) reflecting accrued liabilities under the inflation swaps since the refinancing is included within creditors. This amount is calculated on an accruals basis. The remaining fair value of the interest rate, inflation and cross currency swaps at 30 June 2013 (excluding the inflation swap accrual), is a liability of £1,412.3m which comprises £1,051.8m in relation to the RPI linked swaps, £351.8m in relation to the interest rate swaps, and £8.7m in relation to the cross currency swap (2012: total £1,044.7m), which is not recognised on the balance sheet in accordance with Group accounting policy and UK GAAP accounting standards. This fair value is calculated on a mark to market basis.

18 Provisions for liabilities and charges

Group	Onerous contract	Decommissioning	Restructuring	Remediation	Other	Total
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 July 2012	3.4	36.8	5.7	13.8	0.8	60.5
Released to profit and loss account	-	(1.4)	(0.8)	(3.4)	-	(5.6)
Charged to profit and loss account	-	1.5	10.2	-	-	11.7
Changes relating to movements in the discounted amount	-	1.4	-	-	-	1.4
Utilised	(1.2)	(1.1)	(11.6)	-	-	(13.9)
At 30 June 2013	2.2	37.2	3.5	10.4	0.8	54.1

The onerous contract provision relates to supplier contracts where the costs are expected to exceed the benefits, and onerous lease contracts where the buildings are empty but lease costs are being incurred. The provision is expected to be utilised over the next three years.

Provisions are made for decommissioning and asset at risk costs where the Group has an obligation to restore sites and the cost of restoration is not recoverable from third parties. The provision is in relation to assets of which the remaining useful economic life ranges up to 21 years.

The restructuring provision relates to the costs of a reorganisation of Group operations which will be utilised during the next financial year.

The remediation provision represents the cost of works identified as being required across a number of the Group's sites and is expected to be utilised over the next three years.

Other provisions represent a variety of smaller items which are expected to be utilised over the next one to three years.

The Company has no provisions (2012: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

19 Share capital

	Group and Company 30 June 2013 £'m	Group and Company 30 June 2012 £'m
Authorised:		
1,016,500,000 ordinary shares of £1 each	1,016.5	1,016.5
Allotted, called up and fully paid:		
653,928,000 ordinary shares of £1 each	653.9	653.9

20 Share premium account

	Group and Company £'m
At 1 July 2012 and 30 June 2013	315.6

21 Profit and loss reserve

	£'m
Group	
At 1 July 2012	(1,515.2)
Actuarial loss on pension scheme	(0.5)
Movement on deferred tax relating to pension liability	0.1
Exchange adjustments offset in reserves (translation of foreign investments)	(0.2)
Loss for the financial year	(304.4)
At 30 June 2013	(1,820.2)
	£'m
Company	
At 1 July 2012	707.4
Profit for the financial year	91.9
At 30 June 2013	799.3

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

22 Reconciliation of movement in shareholders' (deficit) / funds

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
Group		
Loss for the financial year	(304.4)	(220.2)
Dividends	-	-
Other recognised gains and losses relating to the year	(0.6)	(10.5)
Net change in shareholders' deficit	(305.0)	(230.7)
Opening shareholders deficit	(545.7)	(315.0)
Closing shareholders' deficit	(850.7)	(545.7)
Company		
Profit for the financial year	91.9	183.2
Net change in shareholders' funds	91.9	183.2
Opening shareholders' funds	1,676.9	1,493.7
Closing shareholders' funds	1,768.8	1,676.9

23 Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group Year ended 30 June 2013	Group Year ended 30 June 2012
	£'m	£'m
Operating profit	122.6	123.8
Depreciation charge	105.9	94.1
Impairment of fixed assets	-	5.6
Amortisation charge	159.1	155.2
Loss on disposal of tangible fixed assets	1.9	0.2
Decrease in debtors	(5.7)	(11.1)
(Decrease) / increase in creditors	(25.4)	9.5
(Decrease) / increase in provisions	(9.4)	0.3
Total net cash inflow from operating activities	349.0	377.6

Net cash inflow from operating activities includes cash outflows relating to exceptional items of £25.7m (2012: £16.5m). The exceptional costs accrued at 30 June 2013 of £2.0m are expected to be paid within the next financial year.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

24 Analysis of changes in net debt

	Note	At 1 July 2012 £'m	Cash flows £'m	Non-cash changes £'m	At 30 June 2013 £'m
Cash at bank and in hand	15	329.7	(209.2)	-	120.5
Loans to joint ventures	14	-	0.1	-	0.1
Debt due within one year	16	-	-	-	-
Debt due after one year	17	(4,177.1)	211.8	(104.8)	(4,070.1)
Finance leases	16, 17	(15.0)	0.6	(0.1)	(14.5)
Total		(3,862.4)	3.3	(104.9)	(3,964.0)

Major non-cash changes include an increase in accrued liability on interest rate swaps, and a movement in unamortised debt issue costs.

25 Commitments for expenditure

Capital commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as a liability are payable as follows:

	30 June 2013 £'m	30 June 2012 £'m
Within one year	19.8	24.7
Within two to five years	-	3.0
Total capital commitments	19.8	27.7

At the balance sheet date, the Group had no forward contracts to sell Euros (2012: £12.0m) or sell US Dollars (2012: £8.1m).

Operating leases

Annual commitments in relation to non-cancellable operating leases for land, buildings and other infrastructure locations expiring:

	30 June 2013 £'m	30 June 2012 £'m
Within one year	0.4	0.7
Later than one year but not later than five years	7.5	6.0
Later than five years	14.6	16.8
Total land, buildings and other infrastructure locations annual lease commitments	22.5	23.5

The annual commitments above exclude amounts relating to contingent rentals, cancellable leases and leases which have expired their initial term and now operate on a rolling notice period of less than one year. Accordingly, the annual lease expense seen in note 3 is greater than the commitment shown above.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Other annual lease commitments expiring:

	30 June 2013	30 June 2012
	£'m	£'m
Within one year	0.7	0.1
Later than one year but not later than five years	0.8	1.4
Total other annual lease commitments	1.5	1.5

26 Contingent liabilities

Under the terms of the Group's external debt facilities, the Group has provided security over substantially all of its fixed and other assets by way of a Whole Business Securitisation structure.

27 Pension commitments

Defined benefit scheme

In the year to 30 June 2013, the Group operated one defined benefit scheme, sponsored by Arqiva Limited. The assets of the scheme are held separately from those of Arqiva Limited in trustee administered funds.

Triennial valuation

The triennial valuation of the Group's defined benefit pension obligations as at 30 June 2011, for actuarial funding purposes, had resulted in an assessed deficit of £17.4m. Gross plan liabilities at the valuation date were £130.5m compared to gross plan assets of £113.1m. Arqiva Limited has agreed with the trustee to make deficit recovery payments into the Plan of £5.7m in July 2013, £5.7m in July 2014 and £4.1m in July 2015, after taking into account payments already made under the previous recovery plan since the date of the valuation.

FRS 17 assumptions

The assumptions used for the scheme for the purpose of the FRS 17 accounting position as at the year end are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit / surplus of assets below / above the FRS 17 liabilities (which equals the gross pension liability / asset).

An actuarial valuation for the purpose of statutory reporting under FRS 17 was carried out at 30 June 2013 in consultation with an independent firm of consulting actuaries, Lane Clark & Peacock LLP. The principal assumptions made are:

	30 June 2013	30 June 2012
Price inflation (RPI)	3.40%	3.00%
Price inflation (CPI)	2.40%	2.00%
Discount rate	4.80%	4.70%
Pension increases (LPI with a minimum of 3%)	3.70%	3.50%
Salary growth	3.40%	3.00%
Life expectancy of a male age 60 (current pensioner)	26.7yrs	26.6yrs
Life expectancy of a male age 60 (future pensioner)	28.3yrs	28.2yrs

As required by FRS 17 'Retirement benefits', the value of the defined benefit liabilities has been measured using the projected unit method.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

Asset distribution and long term rate of return expected

	30 June 2013 Expected return	30 June 2013 Fair value £'m	30 June 2012 Expected return	30 June 2012 Fair value £'m
Equities	7.30%	80.0	6.70%	65.6
Bonds	3.95%	66.1	3.50%	62.5
Cash	0.50%	1.0	0.50%	0.2
Total		147.1		128.3
Balance sheet				
Total fair value of assets		147.1		128.3
Present value of scheme liabilities		(150.1)		(131.3)
Gross pension liability		(3.0)		(3.0)
Deferred tax asset		0.7		0.7
Net pension liability		(2.3)		(2.3)

No amounts within the fair value of the arrangements are in respect of the Company's own financial instruments or any property occupied by, or assets used by, the Group.

A higher long term rate of return is expected on equity investments than that which is available on bonds. The extent to which equities are assumed to provide higher returns than bonds in the future is estimated based on the returns achieved above bond returns historically and market conditions at the balance sheet date.

Arqiva Limited pays contributions of between 24.1% and 32.7% of pensionable salaries for the majority of the 351 active members of the scheme as at the last triennial valuation date, plus the cost of matching Additional Voluntary Contributions ('AVCs').

The present value of the scheme liabilities has moved over the year as follows:

	Year ended 30 June 2013 £'m	Year ended 30 June 2012 £'m
1 July	131.3	109.5
Current service costs	4.7	4.6
Settlements	0.6	0.6
Contributions by employees	1.7	1.8
Interest cost	6.3	6.3
Benefits paid	(2.5)	(2.0)
Actuarial loss	8.0	10.5
30 June	150.1	131.3

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The fair value of the scheme assets has moved over the year as follows:

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
1 July	128.3	113.1
Expected return on scheme assets	6.7	7.5
Actuarial gain / (loss)	7.5	(3.3)
Contributions by employers	5.4	11.2
Contributions by employees	1.7	1.8
Benefits paid	(2.5)	(2.0)
30 June	147.1	128.3

The post retirement deficit under FRS 17 moved over the year as follows:

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
(Deficit) / surplus at 1 July	(3.0)	3.6
Current service costs	(4.7)	(4.6)
Settlements	(0.6)	(0.6)
Contributions	5.4	11.2
Other net finance income	0.4	1.2
Actuarial loss	(0.5)	(13.8)
Deficit at 30 June	(3.0)	(3.0)

The following amounts have been included within operating profit:

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
Current services cost (employer only)	4.7	4.6
Settlements	0.6	0.6
Total operating charge	5.3	5.2

The following amounts have been included as net finance expense under FRS 17:

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
Expected return on pension scheme assets	6.7	7.5
Interest on post retirement liabilities	(6.3)	(6.3)
Net finance income	0.4	1.2

The actual return on scheme assets was a gain of £14.2m (2012: £4.2m).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

The following amounts have been recognised within the statement of group total recognised gains and losses ('STRGL') under FRS 17:

	Year ended 30 June 2013	Year ended 30 June 2012
	£'m	£'m
Actual return less expected return on scheme assets	7.5	(3.3)
Losses due to changes in assumptions underlying the FRS 17 value of scheme liabilities	(8.0)	(12.2)
Experience gains arising on the scheme's liabilities	-	1.7
Actuarial loss recognised in the STRGL	(0.5)	(13.8)

The cumulative amount of actuarial gains and losses recognised in the STRGL is a loss of £15.5m (2012: £15.0m).

The history of experience gains and losses is:

	2013	2012	2011	2010	2009
	£'m	£'m	£'m	£'m	£'m
Present value of scheme liabilities	(150.1)	(131.3)	(109.5)	(101.8)	(78.5)
Fair value of scheme assets	147.1	128.3	113.1	89.5	68.5
(Deficit) / surplus on scheme	(3.0)	(3.0)	3.6	(12.3)	(10.0)
Actual return less expected return on scheme assets	7.5	(3.3)	10.6	7.6	(10.6)
Percentage of Scheme's assets	5%	(3%)	9%	9%	(16%)
Experience gains and (losses) arising on scheme's liabilities	-	1.7	-	-	(1.0)
Percentage of the FRS 17 value of the scheme's liabilities	0%	(1%)	0%	0%	1%
Total amount recognised in the STRGL	(0.5)	(13.8)	12.5	(6.1)	(3.0)
Percentage of the FRS 17 value of the scheme's liabilities	0%	11%	(11%)	6%	4%

The scheme is closed to new entrants and under the method used to calculate pension costs in accordance with FRS 17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

Other pension schemes

Arqiva Limited

Arqiva Limited has operated a defined contribution scheme during the year, for those employees who are not members of the Defined Benefit scheme described above. Contributions payable in respect of this scheme for the year were £4.6m (2012: £4.3m). The assets of the scheme are held outside of the Group.

An amount of £0.7m (2012: £0.7m) is included in accruals being the outstanding contributions to the defined contribution scheme.

Arqiva Inc

Arqiva Inc operates a defined contribution scheme for its employees. Contributions payable in respect of this scheme for the year were £19,000 (2012: £67,000). The assets of the scheme are held outside of the Group.

An amount of £2,000 (2012: £6,000) is included in accruals being the outstanding contributions to the defined contribution scheme.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2013

28 Related party disclosures

On a consolidated basis, transactions and balances between Group entities have been eliminated in full and are therefore not disclosed in accordance with FRS 8 'Related party disclosures'.

The Company has taken advantage of the exemptions available under FRS 8 for disclosure of transactions with entities that are part of the Group as related parties in these financial statements. The only Company related party transaction that is not exempt from disclosure is the intercompany debtor balance with Arqiva Financing No 3 Plc ('AF3') which was reduced to £nil on refinancing (2012: £1,285.8m). Interest charged during the year was £73.8m (2012: £171.4m).

Related party transactions:

As at 30 June 2013, the amount outstanding from Arts Alliance Media Investment Limited, a joint venture company, including accrued interest was £0.1m (2012: £nil). This balance represents a loan advanced during the year. Interest charged during the year was £9,000 at 12% (2012: £nil).

In 2013 the Group received a dividend from MXR Holdings Limited, a Company in which the Group has a trade investment, of £0.1m (2012: £0.1m).

The Group paid subscriptions of £2.8m (2012: £2.6m) to DTV Services Limited, an associate undertaking, and £7.5m (2012: £5.5m) to YouView TV Limited, a joint venture.

There are two investor companies, FICAL and MEIF II, which are related parties with the Group, in accordance with FRS 8, by virtue of significant shareholding in the Group. See page 16 for further details of these investor companies.

2013	MGIF II *	MEIF II +	Macquarie Prism *	FICAL +
	£'m	£'m	£'m	£'m
Shareholder loan notes #	4.7	344.8	9.3	665.2
Shareholder loan note interest for the year	1.0	39.1	1.3	75.2
Accrued shareholder loan note interest	3.6	54.5	4.2	104.8

* A related party by virtue of common influence.

+ An investor company and a related party by virtue of significant shareholding (as at 30 June 2013).

Additional shareholder loan notes were issued to MEIF II, Macquarie Prism and FICAL on refinancing

2012	Macquarie Bank Limited *	MGIF II *	MEIF II +	Macquarie Prism *	Macquarie Capital Group Limited *	FICAL +	Macquarie FSS Infra-structure *
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Swap interest paid	8.0	-	-	-	-	-	-
Shareholder loan notes ~	-	4.7	238.6	5.3	-	458.2	35.5
Shareholder loan note interest for the year	-	0.9	30.1	1.0	-	57.9	6.5
Accrued shareholder loan note interest	-	2.6	15.5	2.9	-	29.7	19.7
Expenses	-	-	-	-	0.1	-	-

* A related party by virtue of common influence

+ An investor company and a related party by virtue of significant shareholding (as at 30 June 2012)

~ Additional shareholder loan notes were issued to MEIF II & FICAL in respect of accrued interest on the existing shareholder loan notes.

29 Controlling parties

The Company is owned by a consortium of shareholders including Canada Pension Plan Investment Board, Macquarie European Infrastructure Fund II, other Macquarie managed funds and minorities. There is no ultimate controlling party of the Company, as defined by FRS 8.

The Company is the parent company of the largest group to consolidate these financial statements.