

Arqiva Broadcast Holdings Limited

Registered number 05254001

Regulatory Accounts

For the year ended 30 June 2012

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

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Table of Contents

Directors' report.....	3
Statement of Directors' responsibilities.....	4
Independent Auditors' report to Arqiva Broadcast Holdings Limited and the Adjudicator appointed by Ofcom.....	5
Profit and Loss Account.....	7
Balance Sheet.....	8
Reconciliation to Statutory Consolidated Profit and Loss Account.....	9
Reconciliation to Statutory Consolidated Balance Sheet.....	11
Notes to the Regulatory Accounts.....	13

Directors' report

On 11 March 2008, the Competition Commission announced its decision to allow the merger of the National Grid Wireless ('NGW') and Arqiva group of companies, subject to compliance with certain undertakings ('Undertakings'). Section 15 of the Undertakings requires the merged companies to maintain appropriate accounting records to enable them to prepare annual statements of revenues, costs and assets employed for each of the Managed Transmission Services (MTS) and Network Access (NA) activities. These are known as the Regulatory Accounts.

The Directors of Arqiva Broadcast Holdings Limited and its subsidiaries ('the Group') submit the following Regulatory Accounts for its NA and MTS activities as defined by the Undertakings, in respect of the year ended 30th June 2012.

Appendix 14 of the Undertakings sets out the proposed format of the Regulatory Accounts, which has been further developed to be consistent with current regulatory requirements and common practice in regulatory reporting in comparable industries.

As permitted in Sections 15.1 and 15.10 of the Undertakings, these amendments have been completed in consultation with, and following the approval of, the Office of the Adjudicator – Broadcast Transmission Services ('OTABTS').

The Regulatory Accounts are prepared in accordance with the Regulatory Accounting Policies Manual ("RAPM's") dated 17th October 2012. The allocation methodologies referred to in the RAPM's dated 17th October 2012 have been updated and amended compared to those used to prepare the Regulatory Accounts for the year ended 30 June 2011 to reflect, changes in the business, amendments to management estimates and as a result of the availability of improved supporting data. Where practical comparative information for the year ended 30 June 2011 presented in the Regulatory Accounts has been restated to reflect these changes in methodology including:

- The basis of allocation of bundled TV and Radio revenue; and
- The treatment of DSO overhead costs and associated revenue.

In accordance with a derogation from requirements of the Undertakings, the independent audit of the Regulatory Accounts is currently required to state whether the Regulatory Accounts have been properly prepared in accordance with the RAPM. This derogation is not expected to be continued in perpetuity and the Group is continuing to invest in support systems i.e Oracle R12 upgrade and improvements to the processes and data used in the preparation of the Regulatory Accounts such that in future the independent auditors will be able to form an opinion on the fair presentation of the Regulatory Accounts.

It is currently the Group's intention to produce documentation and evidence to support the 'fairly presents' basis of preparation during the remainder of FY13 such that, subject to the need to reflect changes in market, Group structure, and developments in the regulatory accounts, all methodologies supported by appropriate data will be in place for the full year FY14.

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Statement of Directors' responsibilities

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

- that the Regulatory Accounts are based on information properly extracted from Arqiva Broadcast Holdings Limited's (ABHL's) accounting records;
- that the attribution methodologies set out in the separate document entitled 'Arqiva - Regulatory Accounting Principles and Methodologies' dated 17th October 2012 have been applied appropriately.

The Directors also confirm:

- that the Regulatory Accounts have been properly prepared on the basis of consistent application of the appropriate Generally Accepted Accounting Practice across the Group;
- that the Group's accounting records and relevant meeting minutes have been made available to PricewaterhouseCoopers LLP as required for the purposes of their audit.

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

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

By order of the Board

Michael Giles
Company Secretary
Crawley Court, Crawley
Winchester, Hampshire
SO21 2QA
23 October 2012



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

We have audited the Regulatory Accounts of Arqiva Broadcast Holdings Limited and its subsidiaries (together the "Group") for the year ended 30 June 2012, as specified in the Undertakings to the Competition Commission, which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation to Statutory Consolidated Profit and Loss account, the Reconciliation to the Statutory Consolidated Balance Sheet and Notes to the Regulatory Accounts. These Regulatory Accounts have been prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 17th October 2012 ("RAPM's") agreed with the Adjudicator and accounting policies set out in the Basis of Preparation on page 6.

Respective responsibilities of the Adjudicator, the Directors and the Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the Regulatory Accounts in accordance with conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Broadcast Holdings Limited and its shareholders on 1 September 2008 ("the Undertakings") and the RAPM's agreed with the Adjudicator.

Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Adjudicators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the Regulatory Accounts

As explained in the RAPM's and the "Basis of Preparation" on page 6, the Group has prepared the Regulatory Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Group maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the Group's statutory consolidated financial statements for the year ended 30 June 2012 ("the Statutory Accounts").

PricewaterhouseCoopers LLP audited the Statutory Accounts of the Group for the year ended 30 June 2012 on which they expressed an unqualified audit opinion. In conducting our subsequent examination of the Regulatory Accounts, and in providing the opinion below, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audit of the Statutory Accounts.

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

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts have been properly prepared in accordance with the RAPM's dated 17th October 2012 and comply with the requirements of Conditions 15.1 and 15.2 of the Undertakings.

Basis of preparation

Without modifying our opinion, we draw attention to the RAPM's which describes the basis of preparation of the Regulatory Accounts. The Regulatory Accounts are separate from the statutory financial statements of the Group and have not been prepared exclusively on the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Group as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton
29 October 2012

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Profit and loss account

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
			RESTATED	RESTATED
	Year ended	Year ended	Year ended	Year ended
	30 June 2012	30 June 2012	30 June 2011	30 June 2011
	£'000	£'000	£'000	£'000
Total TV revenue	131,549	34,541	117,029	36,748
Total Radio revenue	40,185	26,790	36,974	24,649
Total revenue	171,734	61,331	154,003	61,397
Rent and rates	(14,510)	-	(12,784)	-
Power (shared infrastructure)	-	-	(300)	-
Circuits	-	-	-	(2,539)
Labour Cost of Sales and Maintenance	(5,883)	(10,741)	(8,739)	(6,569)
Cost of Sales	(20,393)	(10,741)	(21,823)	(9,108)
Operating costs	(20,534)	(12,788)	(21,733)	(10,223)
Facilities recharge	(534)	(214)	(1,024)	(622)
Depreciation, impairment and loss on disposal of fixed assets	(34,203)	(32,082)	(23,523)	(22,595)
Total operating costs	(55,271)	(45,084)	(46,280)	(33,440)
Exceptional costs	(1,326)	(829)	(2,703)	(2,001)
Operating result (after exceptional costs)	94,744	4,677	83,197	16,848

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Balance sheet

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	30 June 2012	30 June 2012	RESTATED 30 June 2011	RESTATED 30 June 2011
	£'000	£'000	£'000	£'000
Fixed Assets	647,123	259,221	652,127	227,610
Current Assets				
Debtors	40,072	9,608	36,464	14,962
Cash at bank and in hand	13,324	3,798	12,676	8,768
Total Current Assets	53,396	13,406	49,140	23,730
Creditors: amounts falling due within one year	(33,116)	(12,845)	(48,307)	(24,820)
Net Current (Liabilities)/Assets	20,280	561	833	(1,090)
Total Assets less Current Liabilities	667,403	259,782	652,960	226,520
Provisions for liabilities and charges	(25,715)	(5,699)	(7,898)	(3,008)
Capital Employed	641,688	254,083	645,062	223,512

These Regulatory Accounts were approved by the Board of Directors on 23 October 2012 and were signed on its behalf by:



Peter Shore - Director

Reconciliation to Statutory Consolidated Profit and Loss Account for the year ended 30 June 2012

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2012	Year ended 30 June 2012	Year ended 30 June 2012	Year ended 30 June 2012
	£'000	£'000	£'000	£'000
Revenue	171,734	61,331	598,614	831,679
Cost of Sales	(20,393)	(10,741)	(283,499)	(314,633)
Operating Costs	(21,068)	(13,002)	(80,382)	(114,452)
Depreciation, impairment and loss on disposal of fixed assets	(34,203)	(32,082)	(33,682)	(99,967)
Operating profit before amortisation	96,070	5,506	201,051	302,627
Amortisation of goodwill on acquisition			(155,179)	(155,179)
Group Operating Profit	96,070	5,506	45,872	147,448
Exceptional items - Fundamental reorganisation	(1,326)	(829)	(21,513)	(23,668)
	94,744	4,677	24,359	123,780
Share of operating loss in joint venture and associates				3,947
Income from shares in group undertakings				60
Share of Joint venture interest payable				(2,264)
Exceptional items – Financing				1,203
Interest receivable and similar income				2,273
Interest payable and similar charges				(365,584)
Loss on ordinary activities before taxation				(236,585)
Tax on loss on ordinary activities				16,543
Loss on ordinary activities after taxation				(220,042)
Equity minority interests				(120)
Loss for the financial year				(220,162)

Reconciliation to Statutory Consolidated Profit and Loss Account for the year ended 30 June 2011

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2011	Year ended 30 June 2011	Year ended 30 June 2011	Year ended 30 June 2011
	RESTATED	RESTATED	RESTATED	
	£'000	£'000	£'000	£'000
Revenue	154,003	61,397	611,014	826,414
Cost of Sales	(21,823)	(9,108)	(308,840)	(339,771)
Operating Costs	(22,757)	(10,845)	(104,970)	(138,572)
Depreciation	(23,523)	(22,595)	(43,474)	(89,592)
Operating profit before amortisation	85,900	18,849	153,730	258,479
Amortisation of goodwill on acquisition	-	-	(155,424)	(155,424)
Group Operating Profit	85,900	18,849	(1,694)	103,055
Exceptional items - Fundamental reorganisation	(2,703)	(2,001)	(4,097)	(8,801)
	83,197	16,848	(5,791)	94,254
Share of operating loss in joint venture and associates				(333)
Income from shares in group undertakings				72
Exceptional items - Loss on disposal of assets				(2,136)
Exceptional items – Financing				15,637
Interest receivable and similar income				680
Interest payable and similar charges				(367,846)
Loss on ordinary activities before taxation				(259,672)
Tax on loss on ordinary activities				9,244
Loss on ordinary activities after taxation				(250,428)
Equity minority interests				(127)
Loss for the financial year				(250,555)

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2012

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2012 £'000	30 June 2012 £'000	30 June 2012 £'000	30 June 2012 £'000
Fixed Assets	647,123	259,221	722,360	1,628,704
Debtors	40,072	9,608	162,054	211,734
Cash at bank and in hand	13,324	3,798	312,530	329,652
Total Current Assets	53,396	13,406	474,584	541,386
Creditors: amounts falling due within one year	(33,116)	(12,845)	(445,837)	(491,798)
Net Current (Liabilities)/Assets	20,280	561	28,747	49,588
Total Assets less Current Liabilities	667,403	259,782	751,107	1,678,292
Provisions for liabilities and charges	(25,715)	(5,699)	(29,097)	(60,511)
Capital Employed	641,688	254,083	722,010	1,617,781
Assets/Liabilities excluded for regulatory reporting purposes				
Intangible fixed assets including goodwill				2,148,939
Investments in JVs/Associates				11,055
Creditors: amounts falling due after more than one year (mainly long term debt)				(4,320,873)
Pension asset				(2,280)
Total Capital Employed				(545,378)

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2011

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2011 £'000 RESTATED	30 June 2011 £'000 RESTATED	30 June 2011 £'000 RESTATED	30 June 2011 £'000
Fixed Assets	652,127	227,610	685,779	1,565,516
Debtors	36,464	14,962	137,395	188,821
Cash at bank and in hand	12,676	8,768	31,300	52,744
Total Current Assets	49,140	23,730	168,695	241,565
Creditors: amounts falling due within one year	(48,307)	(24,820)	(290,261)	(363,388)
Net Current (Liabilities)/Assets	833	(1,090)	(121,566)	(121,823)
Total Assets less Current Liabilities	652,960	226,520	564,213	1,443,693
Provisions for liabilities and charges	(7,898)	(3,008)	(44,316)	(55,222)
Capital Employed	645,062	223,512	519,897	1,388,471
Assets/Liabilities excluded for regulatory reporting purposes				
Intangible fixed assets including goodwill				2,304,117
Investments in JVs/Associates				4,577
Short term debt				(242,385)
Creditors: amounts falling due after more than one year (mainly long term debt)				(3,769,898)
Provisions for liabilities and charges (Deferred tax)				(2,221)
Pension asset				2,664
Total Capital Employed				(314,675)

Notes to the Regulatory Accounts

1 Principal accounting policies

(a) Basis of preparation

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

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

The Regulatory Accounts analyse ABHL's activities into three core categories: 'Network Access', 'Managed Transmission Services' and 'Other'. The revenues, costs, assets and liabilities for the 'Other' category are arrived at by deducting the total of the Network Access and Managed Transmission Services from the total balances of ABHL and therefore represent the remainder of the Group's business.

These Regulatory Accounts have been prepared in accordance with the accounting policies set out in the consolidated statutory accounts for ABHL (which are themselves prepared in accordance with UK GAAP) together with Arqiva's Regulatory Accounting Policies and Methodologies (RAPM's) dated 17th October 2012.

(b) Restatement of FY11

The RAPM's are updated annually, in consultation with, and with the approval of, the OTABTS, in order to reflect operational and accounting changes in the Group, improvements in supporting data and other changes in management assumptions and estimates. These FY12 Regulatory Accounts are prepared in accordance with the FY12 RAPM's dated 17th October 2012. Comparative information for the year ended 30 June 2011 first published in the 2011 Regulatory Accounts has been restated for the matters described below.

Comparative information for the year ended 30 June 2011 is prepared in accordance with the FY11 RAPM's dated 17 October 2011 amended in respect of:

- Bundled revenue - the allocation of bundled TV and Radio revenue which has been restated in accordance with the methodology described in section 2.4.2 of the FY12 RAPM's;
- DSO Corporate overheads – Revenue, Accrued Income and related costs in respect of DSO Corporate overheads have been included in the Regulatory Accounts for FY12 and comparative information restated accordingly. In the Regulatory Accounts originally published for the year ended 30 June 2011, this Revenue, related Accrued Income and associated costs were classified as "Other".

A restatement was also made to reclassify a portion of maintenance costs within Operating Costs to Cost of Sales, in line with the statutory consolidated financial statements.

Impact of Restated Balances

£k	Regulatory Accounts 2011 Published		Regulatory Accounts 2011 Restated	
	NA	MTS	NA	MTS
TV	89,300	51,640	117,029	36,748
Radio	36,050	25,545	36,974	24,649
Total Revenue	125,350	77,185	154,002	61,397

Arqiva Broadcast Holdings Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2012

£k	Regulatory Accounts 2011 Published			Regulatory Accounts 2011 Restated	
	NA	MTS		NA	MTS
Debtors	28,810	16,248		36,464	14,962

£k	Regulatory Accounts 2011 Published			Regulatory Accounts 2011 Restated	
	NA	MTS		NA	MTS
Cost of Sales (Labour COS and Maintenance)	(6,122)	(3,754)		(8,739)	(6,569)
Operating Costs	(21,695)	(11,864)		(21,733)	(10,223)

In addition to the matters described above the comparability of the results of the NA and MTS businesses is impacted by other changes in methodologies in respect of which restatement of comparative information is not practical. The most significant such methodology improvement is the introduction of OTL based allocations described in section 2.4.8.2 of the FY12 RAPM's.