

**Macquarie UK Broadcast
Holdings Limited**

Registered number 05254001

**Annual Report and Consolidated
Financial Statements**

For the year ended 30 June 2009

Macquarie UK Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2009

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Directors' report and statement of Directors' responsibilities

The Directors of Macquarie UK Broadcast Holdings Limited ('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 2009.

Business review and principal activities

The Group owns and operates a portfolio of communications infrastructure and provides television and radio transmission services, tower site rental, media services and radio communications in the United Kingdom ('UK') and satellite services in the UK, Europe and the United States of America ('USA').

The Group provides a range of products and services to its customers principally through three business units:

- Satellite & Media provides global communication platforms to enterprise, government and broadcast customers around the world. It owns and operates teleports at key locations including Los Angeles, Washington, London and Paris, as well as comprehensive satellite capacity, an international terrestrial fibre network and extensive media facilities. These enable the Group to provide organisations with a comprehensive range of services to deliver their data, broadcasts and media across the globe.
- Terrestrial Broadcast provides transmission for all UK terrestrial TV broadcasters, including the new networks being built for the Digital Switch Over ('DSO'). Transmission is also provided for BBC Radio and most commercial radio stations. The Group owns and operates two of the six UK digital terrestrial TV multiplexes, enabling major media companies to bring their TV and radio services to Freeview.
- Wireless Access provides cellular, wireless broadband, voice and data solutions for the mobile communications, public safety, local government and commercial markets.

On 3 April 2007, the Group acquired the National Grid Wireless ('NGW') group of companies from National Grid Plc. The acquisition was subject to a review by the Competition Commission and during this review period, a formal 'hold separate' agreement was in place, and NGW continued to trade as a separate business. On 11 March 2008, the Competition Commission announced that it would allow the acquisition of the NGW group of companies to go ahead, subject to the agreement of a package of measures to protect the interests of the customers, including price reductions for certain customers on new and existing contracts and the appointment of an adjudicator to resolve disputes. The undertakings required by the Competition Commission were signed in August 2008 and 'hold separate' lifted on 1 September 2008.

Subsequent to the lifting of 'hold separate' integration of NGW into the Group commenced. During September 2008, NGW was rebranded as Arqiva, and all employees were transferred under TUPE to Arqiva Limited, a subsidiary company. The integration of NGW was substantially completed by the year end and has resulted in exceptional costs of £28,159,000 in the year (2008: £nil).

In November 2008, the Group completed the DSO process at the Selkirk transmitter group in the Scottish border region. This was the first of 50 main analogue stations to switch over to all digital transmission.

On 12 December 2008, Arqiva Limited acquired a 16.4% stake in Arts Alliance Media Investment Limited ('AAMIL'). This investment enables the Group to develop technologies for the distribution of digital cinema content.

On 18 February 2009, Arqiva Limited acquired JFMG Limited ('JFMG'). JFMG has been contracted by Ofcom to manage and licence the radio spectrum used for programme making, entertainment and special events ('PMSE').

In March 2009, Arqiva Limited was selected by Mobile Broadband Network Limited ('MBNL'), the joint venture formed between T-Mobile UK and 3UK to create and manage their UK 3G network, as its strategic partner for the provision of cell sites. Under the terms of the 10 year agreement, Arqiva Limited will provide MBNL with 5,100 sites and Arqiva Limited will have exclusive marketing rights for site sharing services on a further 2,500 sites.

In April 2009, the Group reached an agreement with Global Radio to acquire Global's 63% share in the commercial Digital Audio Broadcasting ('DAB') multiplex, Digital One, and ownership of Now Digital, which operates Global Radio's local digital radio multiplexes. The transaction was completed on 21 July 2009.

In July 2009, the Group agreed to acquire the video-on-demand platform developed by UK VOD LLP, a joint venture set up by BBC Worldwide, ITV and Channel 4.

The results show a pre-tax loss of £205,669,000 (2008: loss of £251,737,000) and Group turnover of £805,520,000 (2008: £759,574,000). The Group has net assets of £168,427,000 (2008: £485,167,000).

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The key measure of the Group's performance is EBITDA. 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. EBITDA for the year ended 30 June 2009 is £304,566,000 (2008: £275,536,000). The EBITDA margin (ratio of EBITDA to turnover expressed as a percentage) for the year ended 30 June 2009 is 37.8% (2008: 36.3%).

Business environment

The single biggest issue facing the Group (and industry) is the change to the terrestrial transmission business as a consequence of the UK Government mandated national DSO programme. A significant and complex broadcast engineering project is being undertaken in order to provide Digital Terrestrial Television ('DTT') transmission services. Terrestrial transmission services in the UK will transition from current analogue and low power digital transmission service to a high power digital transmission service. This began in Cumbria in October 2007 and will take place progressively on a region by region basis, scheduled to complete by 2012. The programme is currently running within plan parameters, with over 1 million homes now fully digital. The Group has executed contracts with the BBC, SDN, and Digital 3/4 to design, build and operate new high-power DTT networks.

The UK Government issued its final report 'Digital Britain' on 16 June 2009, following extensive industry consultation. There are no new proposals for television infrastructure, however it does support an analogue radio switch-off by the end of 2015. As discussed under post balance sheet events below, the acquisition of Digital One means the Group is now a national digital radio multiplex operator.

Principal risks and uncertainties facing the business

The key business risks affecting the Group are set out below:

- DSO: as identified above, the delivery of the DSO programme, on a technical and commercial level over the next three years.
- Demand for wireless communications and resultant demand for access to the Group's towers.
- Delivery of DTT Managed Transmission Service contracts with TV broadcasters.

Dividends and transfers to reserves

The Company declared and paid dividends of £130,117,000 (2008: £19,147,000) comprising a dividend of £110,000,000 paid on 29 July 2008 and a further dividend of £20,117,000 paid on 28 January 2009.

The consolidated loss for the year of £183,829,000 (2008 loss: £243,801,000) was transferred from reserves.

Future developments

It is the intention of the Company and the Group to continue investing in communications infrastructure projects.

Post balance sheet events

Macquarie Communications Infrastructure Group ('MCG') is the parent undertaking for accounting purposes of the largest group to consolidate these financial statements. A meeting of shareholders of MCG took place on 30 June 2009 where the proposed takeover of MCG by Canada Pension Plan Investment Board ('CPPIB') was approved by shareholders. The transaction completed on 21 July 2009. As a result of the transaction CPPIB hold a 48% stake in the Group, Macquarie European Infrastructure Fund ('MEIFII') 21%, other Macquarie Funds 13% and minorities 18%.

On 21 July 2009 a subsidiary company, MUKBL Digital Radio Limited, acquired the remaining shares (63%) in Digital One Limited for consideration of £3,067,000. Digital One was accounted for as an associate as at 30 June 2009 and it has now become a full subsidiary. Digital One operates a national DAB multiplex ('mux'), meaning the Group has become a mux operator in radio as well as television.

On 25 August 2009, Arqiva Limited completed the acquisition of the video-on-demand platform developed by UK VOD LLP, a joint venture set up by BBC Worldwide, ITV and Channel 4.

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 47 (2008: 43 days).

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Financial risk management

The Company's operations expose it and the Group to a variety of financial risks that include the effects of changes in price, credit risk, liquidity risk, cash flow interest rate risk and foreign exchange risk. The Group's overall risk management programme seeks to minimise potential adverse effects as noted below.

Price risk

The Group has a limited exposure to fluctuations in prices of electricity, gas and other commodities. The potential impact of this is reduced by negotiating fixed price contracts. In addition, the majority of the Group's costs do not fluctuate on a day-to-day basis but are fixed for periods of time.

Credit risk

The Group is exposed to credit risk but this is managed through appropriate credit checking procedures prior to taking on new customers, higher risk customers paying in advance of services being provided, and the generally lower risk nature of the majority of the customer portfolio.

Liquidity risk

The Group uses medium term debt finance to ensure the Group has sufficient available funds for operations and planned growth.

Cash flow interest risk

The Group has a policy of maintaining approximately 50% of bank debt at a fixed rate to ensure certainty of future interest cash flows. This is achieved using interest rate swaps to convert the floating rate term debt into fixed rate debt. The remaining interest cost of the bank debt, is linked to inflation rising index link swaps.

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 (US Dollars and Euros), the majority of the Group's revenues and cost are sterling based, and accordingly exposure to foreign exchange risk is low.

Environment

The Group recognises that its activities and those of its subsidiaries impact on the environment to some degree; therefore it aims to secure the positive advantages and reduce the negative impacts through a system of active environmental management.

The Group aims to:

- comply with current and future legislative requirements, encourage best environmental practice and commit to continual improvement;
- fulfil applicable landscape and ecological commitments;
- minimise pollution from its activities;
- plan the contingency / emergency response for major incidents, with other environmental stakeholders, to minimise environmental impact;
- engender within its staff, and as far as practicable its contractors, a culture of awareness and responsibility for relevant environmental issues by promoting its environmental policy internally;
- develop, implement and audit an environmental management system to support these aims;
- achieve certification to ISO 14001 'Environmental Management Systems'; and
- promote its environment-friendly credentials as widely as possible.

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 for its operating environments and for all those in the organisation and others who may be affected by its activities.

Employees

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

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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.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees continues using the intranet, briefing groups and distribution of an in-house magazine.

The Company itself has no employees.

Directors

The following held office as Directors of the Company during the year and up to the date of this report:

- Christian Seymour
- Joshua McHutchinson
- Peter Shore
- Adrianus Wamsteker (Appointed 6 February 2009)
- Graeme Bevans (Appointed 20 July 2009)
- Alain Carrier (Appointed 20 July 2009)
- Dan Fetter (Appointed 20 July 2009)
- Andreas Koettering (Appointed 20 July 2009)
- Martin Stanley (Appointed 8 August 2008)
- Andrew Hunter (Appointed 8 August 2008, Resigned 20 July 2009)
- Manoj Mehta (Resigned 6 February 2009)
- Scott Davies (Resigned 20 July 2009)
- Gerald Moriarty (Resigned 20 July 2009)
- Peter Douglas (Resigned 20 July 2009)
- Graeme Barclay (Resigned 20 July 2009)
- Michael Buckling (Resigned 20 July 2009)
- Andrew Cunanan (Resigned 30 September 2008)
- Damian John Walsh (Resigned 30 September 2008)
- Steve Bickerton (Resigned 30 September 2008)

Company Secretary

On 31 July 2009 Tom O'Connor resigned as Company Secretary and Michael Giles was appointed in his place.

Provision 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.

Research and development

The Group performs research and development into new products and technology. Development costs are capitalised when they relate to a customer project. The research and development costs expensed in the year total £1,408,000 (2008: £1,640,000).

Freehold land and buildings

The Directors confirm that the valuation of tangible fixed assets closely approximates to book value.

Overseas branches

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

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Directors' indemnities

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

Independent Auditors

PricewaterhouseCoopers LLP will be reappointed as the Company's Auditors in accordance with the elective resolution passed by the Company under section 487 of the Companies Act 2006.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

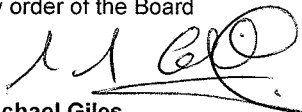
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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
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19 October 2009

