

Arqiva Broadcast Holdings Limited

(formerly Macquarie UK Broadcast Holdings Limited)

Registered number 05254001

Network Access and Managed Transmission Services Financial Statements

For the year ended 30 June 2011

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

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Directors' report

The Directors of Arqiva Broadcast Holdings Limited (formerly Macquarie UK Broadcast Holdings Limited) and its subsidiaries ('the Group') submit the following Financial Statements for its Network Access ('NA') and Managed Transmission Services ('MTS') activities as defined by the Undertakings, in respect of the year ended 30th June 2011.

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 MTS and NA activities. These are known as the Network Access and Managed Transmission Services Financial Statements ('Financial Statements').

Appendix 14 of the Undertakings sets out the proposed format of the Financial Statements, which has been further developed to be consistent with 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 accounts are currently produced under the 'properly prepared' basis. Steps are in place to move towards the 'fairly presents' basis of preparation. This move is underway and significant investments have been carried out to support the improvements in attribution methodologies and underlying operational data. It is currently the Group's intention to produce documentation and evidence to support the 'fairly presents' basis of preparation during the remainder of FY12 such that, subject to the need to reflect changes in market, company structure, and developments in the regulatory accounts, all methodologies supported by appropriate data will be in place for the full year FY13.

Statement of Directors' responsibilities

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

- that the Financial Statements 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 Attribution Methods' have been applied appropriately.

The Directors also confirm:

- that the Financial Statements 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 Financial Statements since they were initially presented on the respective web sites.

Legislation in the United Kingdom governing the preparation and dissemination of such 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

26 October 2011

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 (the "Company") for the year ended 30 June 2011, which comprise the Summary Profit and Loss Account, the Breakdown of Revenue, the Breakdown of Operating Costs, the Summary Balance Sheet, the Breakdown of Fixed Assets and the Breakdown of Capital and Retained Earnings (the "Regulatory Accounts"). These Regulatory Accounts have been prepared in accordance with the Regulatory Accounting Principles and Methods dated 17 October 2011 ("RAPMs") agreed with the Adjudicator and accounting policies set out in the Basis of Preparation.

Respective responsibilities of the Adjudicator, the Directors and the Auditors

As explained more fully on page 3, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Section 15 of the Undertakings to the Competition Commission by the Company and its shareholders on 1 September 2008 ("the Undertakings") and the RAPMs 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 to the Company 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 Company and the Adjudicator those matters that we have agreed to state to them in our report, in order (a) to assist the Company 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 Company 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 RAPMs and the "Basis of Preparation" on page 12, the Company has prepared the Regulatory Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Company and its subsidiaries ("the Group") maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the Company's statutory consolidated financial statements for the year ended 30 June 2011 ("the Statutory Accounts").

PricewaterhouseCoopers LLP audited the Statutory Accounts of the Company for the year ended 30 June 2011 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 Sections 15.1, 15.2 and 15.3 of the Undertakings and the RAPMs 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.

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts have been properly prepared in accordance with Sections 15.1, 15.2 and 15.3 of the Undertakings and the RAPMs dated 17 October 2011 which are maintained by the Company in accordance with Section 15.5 of the Undertakings.

Basis of preparation

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

Matters on which we report by exception

We have nothing to report in respect of the following matters where, in our opinion:

- adequate accounting records have not been kept by the Company;
- 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

28 October 2011

Profit and loss account

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	Year ended 30 June 2011	Year ended 30 June 2011	Year ended 30 June 2010	Year ended 30 June 2010
	£'000	£'000	£'000	£'000
Total TV revenue	89,300	51,640	66,085	69,849
Total Radio revenue	36,050	25,545	38,316	20,890
Total revenue	125,350	77,185	104,401	90,739
Rent and rates	(12,784)	-	(12,709)	-
Power (shared infrastructure)	(300)	-	(300)	-
Circuits	-	(2,539)	-	(2,824)
Maintenance	(6,122)	(3,754)	(9,086)	(7,304)
Cost of Sales	(19,207)	(6,292)	(22,095)	(10,128)
Operating costs	(21,695)	(11,864)	(15,472)	(11,486)
Facilities recharge	(1,024)	(622)	(567)	(345)
Depreciation	(23,523)	(22,595)	(17,904)	(20,551)
Total operating costs	(46,242)	(35,081)	(33,943)	(32,382)
Exceptional costs	(2,703)	(2,001)	(1,252)	(272)
Operating result (after exceptional costs)	57,200	33,811	47,111	47,957

Balance sheet

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	30 June 2011	30 June 2011	30 June 2010	30 June 2010
	£'000	£'000	£'000	£'000
Fixed Assets	652,127	227,610	615,815	214,921
Current Assets				
Debtors: amounts falling due within one year	28,810	16,248	13,734	11,302
Cash at bank and in hand	12,676	8,768	18,075	18,410
Total Current Assets	41,486	25,016	31,809	29,712
Creditors: amounts falling due within one year	(48,307)	(24,820)	(31,197)	(22,737)
Net Current (Liabilities)/Assets	(6,821)	196	612	6,975
Total Assets less Current Liabilities	645,306	227,806	616,427	221,876
Provisions for liabilities and charges	(7,898)	(3,008)	(8,075)	(2,145)
Capital Employed	637,408	224,797	608,352	219,751

These Financial Statements were approved by the Board of Directors on 21 October 2011 and were signed on its behalf by:



Peter Shore – Director

Reconciliation to Statutory Consolidated Profit & 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
	£'000	£'000	£'000	£'000
Revenue	125,350	77,185	623,879	826,414
Cost of Sales	(19,207)	(6,292)	(314,272)	(339,771)
Operating Costs	(22,719)	(12,486)	(103,367)	(138,572)
Depreciation	(23,523)	(22,595)	(43,474)	(89,592)
Operating profit before amortisation	59,901	35,812	162,766	258,479
Amortisation of goodwill on acquisition	-	-	(155,424)	(155,424)
Group Operating Profit	59,901	35,812	7,342	103,055
Exceptional items - Fundamental reorganisation	(2,703)	(2,001)	(4,097)	(8,801)
Operating result (after exceptional costs)	57,200	33,811	3,245	94,256
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 Profit & Loss Account for the year ended 30 June 2010

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2010	Year ended 30 June 2010	Year ended 30 June 2010	Year ended 30 June 2010
	£'000	£'000	£'000	£'000
Revenue	104,401	90,739	628,164	823,304
Cost of Sales	(22,095)	(10,128)	(336,709)	(368,932)
Operating Costs	(16,039)	(11,831)	(96,172)	(124,042)
Depreciation	(17,904)	(20,551)	(42,147)	(80,602)
Operating profit before amortisation	48,363	48,229	153,136	249,728
Amortisation of goodwill on acquisition	-	-	(160,400)	(160,400)
Group Operating Profit	48,363	48,229	(7,264)	89,328
Exceptional items - Fundamental reorganisation	(1,252)	(272)	(2,656)	(4,180)
Operating result (after exceptional costs)	47,111	47,957	(9,920)	(85,148)
Share of operating loss in joint venture and associates				(744)
Income from shares in group undertakings				126
Exceptional items – Financing				1,354
Interest receivable and similar income				1,164
Interest payable and similar charges				(333,302)
Loss on ordinary activities before taxation				(246,254)
Tax on loss on ordinary activities				9,641
Loss on ordinary activities after taxation				(236,613)
Equity minority interests				(141)
Loss for the financial year				(236,754)

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2011

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2011 £'000	30 June 2011 £'000	30 June 2011 £'000	30 June 2011 £'000
Fixed Assets	652,127	227,610	685,779	1,565,516
Debtors: amounts falling due within one year	28,810	16,248	143,763	188,821
Cash at bank and in hand	12,676	8,768	31,300	52,744
Total Current Assets	41,486	25,016	175,063	241,565
Creditors: amounts falling due within one year (excluding short term debt)	(48,307)	(24,820)	(290,261)	(363,388)
Net Current (Liabilities)/Assets	(6,821)	196	(115,198)	(121,823)
Total Assets less Current Liabilities	645,306	227,806	570,581	1,443,693
Provisions for liabilities and charges (excluding Deferred tax)	(7,898)	(3,009)	(44,315)	(55,222)
Capital Employed	637,408	224,797	526,266	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)

Reconciliation to Statutory Consolidated Balance Sheet at 30 June 2010

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2010	30 June 2010	30 June 2010	30 June 2010
	£'000	£'000	£'000	£'000
Fixed Assets	615,815	214,921	650,243	1,480,979
Debtors: amounts falling due within one year	13,734	11,302	145,858	170,894
Cash at bank and in hand	18,075	18,410	58,281	94,766
Total Current Assets	31,809	29,712	204,139	265,660
Creditors: amounts falling due within one year (excluding short term debt)	(31,197)	(22,737)	(345,314)	(399,248)
Net Current Assets/(Liabilities)	612	6,975	(141,175)	(133,588)
Total Assets less Current Liabilities	616,427	221,896	509,068	1,347,391
Provisions for liabilities and charges (excluding Deferred tax)	(8,075)	(2,145)	(41,534)	(51,754)
Capital Employed	608,352	219,751	467,534	1,295,637
Assets/Liabilities excluded for regulatory reporting purposes				
Intangible fixed assets including goodwill				2,459,618
Investments in JVs/Associates				4,910
Creditors: amounts falling due within one year (short term debt)				(186,126)
Creditors: amounts falling due after more than one year (mainly long term debt)				(3,625,165)
Provisions for liabilities and charges (Deferred tax)				(13,148)
Pension deficit				(8,856)
Total Capital Employed				(73,130)

Notes to the Financial Statements

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 Financial Statements 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 and established practice.

The Financial Statements 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 Financial Statements have been prepared in accordance with the accounting policies set out in the consolidated statutory accounts for ABHL, together with Arqiva's Regulatory Accounting Policies and Methodologies (RAPM's) dated 17 October 2011.

The RAPM's will be updated at least annually, in consultation with and with the approval of the OTABTS, in order to reflect both operational and accounting changes in the Group. The FY10 Financial Statements have been prepared in accordance with the FY10 RAPM's dated 15 October 2010, whereas the FY11 Financial Statements have been based on the FY11 RAPM's dated 17 October 2011.