



**Arqiva Group Limited
(formerly Arqiva Broadcast
Holdings Limited)**

Registered number 05254001

Regulatory Accounts
For the year ended 30 June 2016

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

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

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Directors' report

These accounts are prepared in accordance with the requirements of certain undertakings published by the Competition Commission in September 2008 ("the Undertakings") following the merger between National Grid Wireless and Arqiva in 2008. Section 15 of the Undertakings requires that the merged group maintains appropriate accounting records to enable the preparation of annual statements of revenues, costs and assets employed for each of the Network Access ("NA") and Managed Transmission Services ("MTS") activities. These are known as the Regulatory Accounts ("RA").

The Directors of Arqiva Group Limited ("AGL") and its subsidiaries (together 'the Group') hereby submit the Regulatory Accounts for its NA and MTS activities as defined by the Undertakings, in respect of the year ended 30 June 2016.

Appendix 14 of the Undertakings sets out the proposed format of the RA, which has been further developed to be consistent with current regulatory requirements and common practice in regulatory reporting in comparable industries. These developments in form and presentation have been agreed with The Office of the Adjudicator - Broadcast Transmission Services ("OTABTS").

From 1 July 2015, the Group operated under a new business unit structure, with Digital Platforms being combined into the Terrestrial Broadcast business unit. This change has not impacted the regulated results and was agreed in advance with OTABTS.

The RA are prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 27 September 2016 ("RAPM"). The allocation methodologies referred to in the RAPM have been updated and amended compared to those used to prepare the RA for the year ended 30 June 2015. This is to reflect changes in the business, amendments to management estimates and as a result of the availability of improved supporting data. None of these changes have been significant and no restatement to the comparative information for the year ended 30 June 2015 was required.

During the year, the Group transitioned its financial reporting framework from United Kingdom Generally Accepted Accounting Practice ("UK GAAP") to International Financial Reporting Standards ("IFRS"). The date of transition for IFRS in the statutory accounts was 1 July 2013. Consistent with the presentation of the statutory accounts the RA have been restated for the 2015 comparative period from UK GAAP to IFRS. There is no IFRS transition reconciliation statement included within these Regulatory Accounts for the current or preceding period due to the limited number and impact of changes. The notes to the RA describe the IFRS adjustments made.

On 22nd June 2016 the Company filed a Notice of Change of Name by Resolution with Companies House to change its name from Arqiva Broadcast Holdings Limited to Arqiva Group Limited. This is the first set of regulatory accounts to be prepared under the name Arqiva Group Limited.

In accordance with the requirements of the Undertakings, the RA have been subject to independent audit.

Statement of Directors' responsibilities

The Directors are required to prepare Regulatory Accounts, in accordance with Section 15 of the Undertakings to the Competition Commission which Fairly Present the results and state of affairs of the regulatory business as defined by the Undertakings.

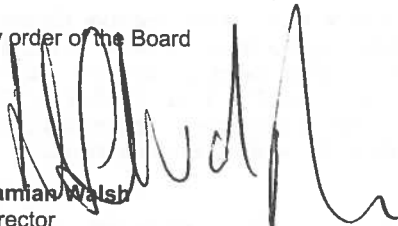
In accordance with Section 15.3 of the Undertakings, the Directors confirm:

- that the Regulatory Accounts are based on information that has been properly extracted from Arqiva Group Limited's (AGL's) accounting records;
- that the accounting principles, methodologies and rules as set out in the separate document entitled 'Arqiva Regulatory Accounting Principles and Methodologies' dated 27 September 2016 the "Framework") have been applied appropriately;
- the Regulatory Accounts have been properly prepared on the basis of consistent application of the appropriate Generally Accepted Accounting Practice across the Group, subject to the application of the Framework;
- 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 Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. The maintenance and integrity of the OTABTS' website 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 websites.

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


Damian Walsh
Director
Crawley Court, Crawley
Winchester, Hampshire
SO21 2QA
18 October 2016

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

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

Report on the Regulatory Accounts

Our opinion

In our opinion the Regulatory Accounts, defined below:

- are fairly presented in accordance with the Regulatory Accounting Principles and Methodologies dated 27 September 2016 ("RAPM"); and
- comply with conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Group Limited (previously called Arqiva Broadcast Holdings Limited and also previously known as Macquarie UK Broadcast Holdings Limited), Macquarie MCG International Ltd, Macquarie European Infrastructure Fund II, Macquarie European Infrastructure Fund III and Macquarie Capital Funds (Europe) Ltd under the Enterprise Act 2002 dated 1 September 2008 as amended in accordance with condition 15.1 by agreement with the Adjudicator (the "Undertakings").

Emphasis of matter – Basis of preparation

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Conditions 15.1 and 15.2 of the Undertakings and the RAPM. The nature, form and content of Regulatory Accounts are determined by the Adjudicator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Adjudicator's purposes. Accordingly we make no such assessment.

The Regulatory Accounts are separate from the statutory consolidated financial statements of Arqiva Group Limited and its subsidiaries (together the "Group") for the year ended 30 June 2016 ("the Statutory Accounts") and have not been prepared in accordance with IFRSs as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

What we have audited

We have audited the Regulatory Accounts of the Group for the year ended 30 June 2016 on pages 8 to 14 which comprise:

- the Income Statement,
- the Statement of Financial Position,
- the Reconciliation to Statutory Consolidated Income Statement Account,
- the Reconciliation to Statutory Consolidated Statement of Financial Position, and
- the Notes to the Regulatory Accounts.

These Regulatory Accounts have been prepared in accordance with the RAPM agreed with the Adjudicator and accounting policies set out in the Basis of Preparation on page 14.

Scope of the audit of the Regulatory 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 fairly presented in accordance with the principles of the RAPM and comply with the requirements of the Undertakings and, on that basis, are free from material misstatement, whether caused by fraud or error.

In addition, we read all the financial and non-financial information in the RAPM to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

As explained in the RAPM and the "Basis of Preparation" on page 14, 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 Statutory Accounts.

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

PricewaterhouseCoopers LLP audited the Statutory Accounts on which they expressed an unqualified audit opinion. In conducting our subsequent examination of the Regulatory Accounts, and in providing the opinion above, 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.

Other 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 Arqiva Group Limited (the "Company"), 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.

Respective responsibilities of the Adjudicator, the Directors and the Auditors

The Directors are responsible for the preparation of the Regulatory Accounts in accordance with the Undertakings and the RAPM 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' above, and having regard to the guidance contained in Technical Release 02/16AAF 'Reporting to Regulators on Regulatory Accounts' 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, the Adjudicator and the Auditors 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.

The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Adjudicator's 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 web sites.

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

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

Other matter

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 30 June 2016 on which we reported on 18 October 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Southampton

18 October 2016

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

Income Statement

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	Year ended 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2015	Year ended 30 June 2015
	£m	£m	£m	£m
TV revenue	136.8	38.1	140.9	38.9
Radio revenue	44.2	18.1	43.3	17.8
Total revenue	181.0	56.2	184.2	56.7
Rent and rates	(17.7)	-	(16.8)	-
Labour Cost of Sales and Maintenance	(10.3)	(12.0)	(11.8)	(11.9)
Cost of Sales	(28.0)	(12.0)	(28.6)	(11.9)
Operating expenses	(21.9)	(8.0)	(19.1)	(6.2)
Depreciation	(30.6)	(15.1)	(29.9)	(14.8)
Total operating expenses	(52.5)	(23.1)	(49.0)	(21.0)
Exceptional costs	(1.8)	(0.7)	(2.2)	(0.7)
Operating profit (after exceptional costs)	98.7	20.4	104.4	23.1


Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

Statement of Financial Position

	Network Access	Managed Transmission Services	Network Access	Managed Transmission Services
	30 June 2016	30 June 2016	30 June 2015	30 June 2015
	£m	£m	£m	£m
Property, plant and equipment	656.5	195.3	668.9	194.8
Current Assets				
Trade and other receivables	48.9	13.1	40.0	11.0
Cash and cash equivalents	12.7	3.5	12.8	4.0
Total Current Assets	61.6	16.6	52.8	15.0
Trade and other payables	(29.4)	(9.1)	(38.3)	(12.2)
Provisions	(1.6)	-	(1.4)	(0.6)
Net Current Assets/(Liabilities)	30.6	7.5	13.1	2.2
Total Assets less Current Liabilities	687.1	202.8	682.0	197.0
Provisions	(39.1)	(2.7)	(30.5)	(2.0)
Capital Employed	648.0	200.1	651.5	195.0

These Regulatory Accounts were approved by the Board of Directors on ¹⁸ October 2016 and were signed on its behalf by:



Damian Walsh - Director

Reconciliation to Statutory Consolidated Income Statement Account for the year ended 30 June 2016

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2016
	£m	£m	£m	£m
Revenue	181.0	56.2	647.5	884.7
Cost of sales	(28.0)	(12.0)	(303.8)	(343.8)
Operating expenses	(21.9)	(8.0)	(86.8)	(116.7)
Depreciation	(30.6)	(15.1)	(83.7)	(129.4)
Operating profit	100.5	21.1	173.2	294.8
Exceptional items	(1.8)	(0.7)	(11.1)	(13.6)
Operating profit (after exceptionals)	98.7	20.4	162.1	281.2
Income statement items excluded for regulatory reporting purposes *				
Amortisation				(10.4)
Share of results of associates and joint ventures				0.1
Other income				0.2
Finance income				1.3
Finance costs				(536.3)
Other gains and losses				(0.1)
Other gains and losses (exceptional)				14.4
Loss before tax				(249.6)
Tax				0.1
Loss for the financial year				(249.5)

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2016.

Reconciliation to Statutory Consolidated Income Statement for the year ended 30 June 2015

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	Year ended 30 June 2015	Year ended 30 June 2015	Year ended 30 June 2015	Year ended 30 June 2015
	£m	£m	£m	£m
Revenue	184.2	56.7	616.2	857.1
Cost of sales	(28.6)	(11.9)	(266.1)	(306.6)
Operating expenses	(19.1)	(6.2)	(107.0)	(132.3)
Depreciation	(31.0)	(15.1)	(67.3)	(113.4)
Operating profit	105.5	23.5	175.8	304.8
Exceptional items	(2.2)	(0.7)	(8.8)	(11.7)
Operating profit (after exceptionals)	103.3	22.8	167.0	293.1
Income statement items excluded for regulatory reporting purposes *				
Impairment (exceptional)				(38.9)
Amortisation				(8.0)
Share of results of associates and joint ventures				2.4
Finance income				2.7
Finance costs				(499.3)
Other gains and losses				(35.6)
Other gains and losses (exceptional)				1.0
Loss on ordinary activities before taxation				(282.6)
Tax on loss on ordinary activities				(57.2)
Loss on ordinary activities after taxation				(339.8)
Equity minority interests				0.1
Loss for the financial year				(339.7)

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2015.

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2016

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2016 £m	30 June 2016 £m	30 June 2016 £m	30 June 2016 £m
Property, plant and equipment	656.5	195.3	917.0	1,768.8
Trade and other receivables	48.9	13.1	235.2	297.2
Cash and cash equivalents	12.7	3.5	53.3	69.5
Total Current Assets	61.6	16.6	288.5	366.7
Trade and other payables	(29.4)	(9.1)	(334.6)	(373.1)
Provisions	(1.6)	-	(6.4)	(8.0)
Net Current Assets/(Liabilities)	30.6	7.5	(52.5)	(14.4)
Total Assets less Current Liabilities	687.1	202.8	864.5	1,754.4
Provisions	(39.1)	(2.7)	(10.8)	(52.6)
Capital Employed	648.0	200.1	853.7	1,701.8
Assets/(Liabilities) excluded for regulatory reporting purposes *				
Intangible assets including goodwill				2,030.9
Interest in associates and joint ventures				4.8
Retirement benefit				7.4
Borrowings				(5,392.2)
Derivative financial instruments				(1,146.3)
Other payables				(172.1)
Total Capital Employed				(2,965.7)

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2016.

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2016

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2015

	Network Access	Managed Transmission Services	Other	Total per Statutory Accounts
	30 June 2015 £m	30 June 2015 £m	30 June 2015 £m	30 June 2015 £m
Property, plant and equipment	668.9	194.8	872.9	1,736.6
Trade and other receivables	40.0	11.0	186.4	237.4
Cash and cash equivalents	12.8	4.0	81.7	98.5
Total Current Assets	52.8	15.0	268.1	335.9
Trade and other payables	(38.3)	(12.2)	(318.1)	(368.6)
Provisions	-	-	(11.3)	(11.3)
Net Current Assets/(Liabilities)	14.5	2.8	(61.3)	(44.0)
Total Assets less Current Liabilities	683.4	197.6	811.6	1,692.6
Provisions	(31.9)	(2.6)	(9.6)	(44.1)
Capital Employed	651.5	195.0	802.0	1,648.5
Assets/(Liabilities) excluded for regulatory reporting purposes *				
Intangible assets including goodwill				2,025.6
Interest in associates and joint ventures				4.6
Retirement benefits				6.6
Borrowings				(5,062.6)
Derivative financial instruments				(1,210.3)
Other payables (including accruals and deferred revenue)				(119.8)
Total Capital Employed				(2,707.4)

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2015.

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 AGL is organised for management and statutory reporting purposes. As such, the RA are derived from the IFRS Accounting System used to prepare the consolidated AGL statutory accounts, which includes all of the Group's businesses, with the reporting requirements of the Undertakings set out in the RAPM (dated 27 September 2016) applied to these account balances.

These financial statements for the year ended 30 June 2016 are the first the Group has prepared in accordance with IFRS. The comparative period for the year ended 30 June 2015 has been restated from previously presented UK GAAP.

The RA analyse AGL's activities into three core categories: 'Network Access', 'Managed Transmission Services' and 'Other'. AGL maintains its accounting records in a manner which enables revenues, costs, assets and liabilities to be attributed either directly or indirectly to the Network Access and Managed Transmission Services, in accordance with the RAPM.

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 consolidated balances of AGL and therefore represent the remainder of the Group's business.

(b) First time adoption of IFRS

The Group has prepared statutory financial statements which comply with IFRS applicable for periods ending on or after 30 June 2016, together with the comparative period data as at and for the year ended 30 June 2015.

There is no IFRS transition reconciliation statement included within these Regulatory Accounts for the current or preceding period. Note (c) describes the adjustments recognised in the Regulatory Accounts for both periods.

(c) Restatement of UK GAAP balances to IFRS

Software costs

Under UK GAAP software was reported as a tangible asset. Under IAS 38, software is reclassified and presented as an intangible asset and amortised in line with the Group's accounting policy which is the same as the previous depreciation charges. As intangible assets are excluded from the regulated activities, to restate the comparative period to IFRS, a carrying value of £5.5m NA and £1.6m MTS was removed from the property, plant and equipment financial statement line in the statement of financial position, and depreciation of £1.1m NA and £0.3m MTS was removed from the income statement.

Classification of provisions

Under IFRS, we are required to disclose analysis of our provisions which fall due within one financial year, under UK GAAP all provisions were stated as long term. Provisions falling due within one year of £1.6m for NA and £nil for MTS (2015: £1.4m NA, £0.6m MTS) have been reclassified within the statement of financial position.