Arqiva Group Limited

Regulatory Accounting Principles and Methodologies 2023/24

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Table of Contents

1 Regulatory Accounting Principles

1.1 Background

Arqiva Group Limited ("AGL") and its subsidiaries ("the Group") together is required, (under the terms of the Undertakings agreed with the Competition Commission in respect of the acquisition of the National Grid Wireless ("NGW") Group by Arqiva Financing No1, the "Undertaking") to prepare annual Regulatory Accounts ("RA"). The Competition Commission closed on 1 April 2014; its functions have transferred to the Competition and Markets Authority. The Undertakings are available at https://ota-bts.org.uk/.

These RA report the Network Access ("NA") and Managed Transmission Services ("MTS") activities, as defined by the Undertakings, of the combined Arqiva and NGW businesses.

This document sets out the Regulatory Accounting Principles and Methodologies ("RAPM") on which the RA are based; it sets out detailed methods applied in attributing revenues, costs, assets and liabilities to the NA and MTS activities of the Group.

The RAPM are maintained in accordance with Section 15.5 of the Undertakings. Section 15.5 of the Undertakings states that *"…Arqiva shall maintain documentation of the accounting principles, methodologies and rules to be used in preparing these summary statements and provide these to the Adjudicator. These principles, methodologies and rules shall be consistent with those used for cost oriented pricing of contracts and contain an adequate level of detail to enable the Adjudicator to understand the basis on which the statements will be prepared, and will take into account all relevant guidance issued by the Adjudicator pursuant to paragraph 13.2."*

Section 15.2 of the Undertakings states that *"…Arqiva shall also provide a reconciliation to its audited statutory accounts, and ensure that the summary statements are prepared on a consistent basis from one financial year to the next."* The reconciliation is available within the published RA.

It is intended that this document is read in conjunction with the RA and the AGL Annual Report and Consolidated Financial Statements. This document and the RA will be published on the Arqiva website and updated annually in the event of any changes to either the RAPM or detailed attribution methods. Key changes are summarised in section 1.5.

1.2 Basis of preparation and form of Audit Opinion

The Undertakings require that the RA be prepared and externally audited on a Fairly Presents ("FP") basis. This takes account of key regulatory reporting principles such as cost causality (see section 1.3 below).

The RA for the year ended 30 June 2024 (FY24) have been prepared and audited on that basis.

1.3 Regulatory Accounting Principles

The RA are based on the following Regulatory Accounting Principles; this document is prepared to provide a suitably informed reader with a description of the accounting and attribution methods used in the production of the RA.

- **Accounting Principle**: the RA will be derived from the Consolidated Financial Statements of AGL prepared in accordance with International Financial Reporting Standards ("IFRS") as defined by the Group accounting policies set out in the consolidated financial statements, unless any specific deviation is required as a result of conforming to this document.

- **Cost Causality**: revenues (including transfer charges), cost components, assets and liabilities are attributed to NA, MTS and Other (Other represents Arqiva's non-regulated business) on a basis which reflects the activities causing the revenues to be earned, costs to be incurred, assets acquired, or liabilities incurred. Where such a direct relationship does not exist, revenues, costs, assets and liabilities are attributed on a fair, reasonable and non-discriminatory basis.

- **Data Source Accuracy & Completeness**: empirical data, both financial and non-financial, used as part of the accounting and attribution methodology is subject to financial controls and governance. The objective of the finance teams involved in the regulatory financial reporting of the AGL group, is to maintain financial information to an adequate degree of accuracy, such that the information included in the RA is free from material errors, misstatements or double-counting.

- **Materiality:** under international accounting standards, an item is material to the financial statement if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions of the primary users of the financial statement. An item can be deemed to be material depending on the nature or magnitude of information, or both. Management can determine what it believes to be material in managing the operations of the business.

- **Consistency**: the RA are prepared on a consistent basis from one year to the next to allow for meaningful year on year comparisons. Should changes be made to the Regulatory Accounting Principles or the Attribution Methods that lead to a material effect on the information reported in the RA, the corresponding prior year figures will be restated if possible.

- **Objectivity**: each element of Regulatory Financial Reporting, so far as is possible, must take account of all the available financial and operational data that is relevant to that element. Where an element of Regulatory Financial Reporting is based on assumptions, those assumptions are justified and supported by available relevant empirical data. Cost allocations are intended to be impartial, and not intended to benefit any particular product/service or customer segment or to benefit either Arqiva or any other operator.

1.4 Asset values in the RA

Consideration has been given to the basis on which asset values and depreciation are reported in the RA.

For Reference Offer pricing, Arqiva uses the Regulated Asset Base ("RAB"). The RAB uses depreciated replacement cost based on a valuation of the regulated asset base (i.e. assets used to provide NA and MTS) carried out by independent consultants in 2012. This valuation was also independently audited for the Office of the Adjudicator. It is adjusted annually in line with the Retail Price Index.

As agreed with the Office of the Adjudicator, the RA use valuations based on the Fixed Asset Register ("FAR") used in the accounts of AGL. The FAR values assets on a historical cost basis. Assets are depreciated over their useful economic life. The FAR includes assets used for services covered by the Undertakings and also non-regulated assets. Therefore, in preparing the RA an exercise is undertaken to exclude assets which are not relevant for the RA and to categorise assets according to whether they are used for NA or MTS. More detail on the Regulated Fixed Asset Register ("RFAR") is at section 2.3.5.

More information about Attribution and Allocation Methodologies can be found in section 2. Additional information on how assets and depreciation are treated is also in sections 2.1 (Introduction), 2.3.1 (Overview of Allocation Bases), 2.3.3.6 (Depreciation), 2.3.5 (RFAR), 2.3.6 (Work in Progress), 2.3.7 (Other Assets) and 2.3.9.1 (Windloading)

1.5 Key Changes in the Year

There have been no significant changes to the structure of the business during the FY24 financial year that will have a material impact on cost allocation methodology. During the year the Simplification function that had been brought together from across the Commercial and Technology function to drive better prioritisation, resource allocation, execution and cut complexity by having a central view of all programmes of work, was disbanded and the cost centres were moved back to the functions they had been a part of in FY22. As the majority of headcount and third party costs were moved in their existing cost centres on a lift and shift basis in FY23, costs have been allocated consistently year on year. This change has not had a material impact on the RA.

We have also continued refining the RA process as in previous years. Refinements to allocation methodologies include the following:

Revenue – there is a continuing move away from bundled contracts which combine NA and MTS into a single price. All contracts in recent years set out the charges for NA and MTS separately. This avoids relying on estimates for the split between the two categories published in the RA.

Cost allocations – continued review of cost causality to ensure appropriate allocation of costs. Examples of such activity include review of new project set up to ensure an appropriate regulatory classification is applied at source and close monitoring of cost centre changes to ensure minimal impact on the RA.

1.5.1 700 MHz Clearance

The 700MHz Clearance programme is no longer a key driver to the allocations within the regulated accounts. Following the final clearance event in August 2020 activity on the project has continued to decrease in FY24. Whilst the spectrum has been cleared there are still operational activities that need to be completed (e.g. final restoration of the land at Emley Moor). Certain allocation methods have been refined to ensure direct allocation of the 700 MHz Clearance programme is completed before allocation is made across the rest of Terrestrial Broadcast. This is to better reflect a different nature or volume of cost causality. The revenue from the programme is unregulated. Equipment which will remain part of the regulated business is classified based on its regulatory status as NA/MTS/Other. Equipment which is only used during the period of clearance activities to 2024 and will not form part of the regulatory business going forward, is classed as Other.

1.5.2 COVID-19 Radio discounts

During the 2020 and 2021 financial years a support package was formulated giving structured industry discounts to radio customers to assist with the impact of COVID-19, the revenue recognition accounting policy recognises these discounts across the lives of the relevant contracts. These discounts have been allocated to Other in the preparation of the RA as they are considered to be exceptional discounts and have not changed the normal operations of the regulated business.

1.5.3 Bilsdale

On 10 August 2021 the Bilsdale transmitter was irreparably damaged by fire, causing disruption to transmission services. Significant exceptional costs have been incurred to restore service; these costs have been allocated based on the windloading of the Bilsdale site. Non-incremental costs, such as internal labour, have been expensed or capitalised as normal, incremental costs have been treated as exceptional. The final insurance payment of £16m (FY23: £20m, FY22: £5m) has been recognised in exceptionals in the RA in FY24 to the extent that it relates to costs allocated. Service credits recognised in the AGL accounts have been allocated to Other in the preparation of the RA as they are considered to be exceptional and have not changed the normal operations of the regulated business.

2 Attribution and Allocation Methodologies

2.1 Introduction

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 general ledger used to prepare the consolidated financial statements of AGL with the reporting requirements of the Undertakings overlaid.

The consolidated financial statements are prepared on a historical cost basis, except for financial instruments which are measured at fair value at the end of each financial period. Fixed assets are held at cost, modified for the fair value of those assets acquired through business combinations.

2.2 Organisation Structure

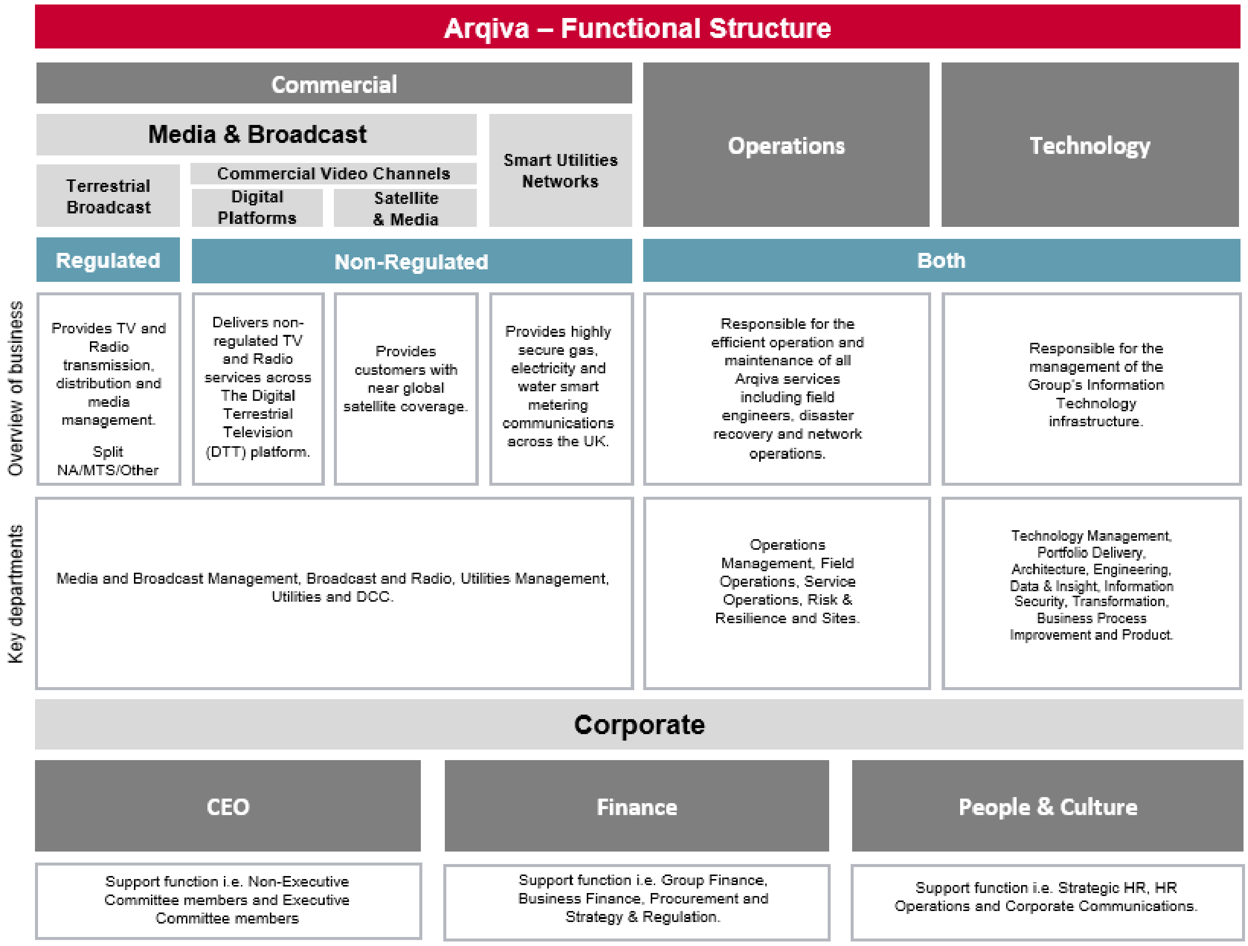
The Group owns and operates a portfolio of communications infrastructure and provides television and radio transmission services, media services and radio communications in the United Kingdom ("UK") and overseas.

There are two customer segments within the group: Media & Broadcast and Smart Utilities Networks.

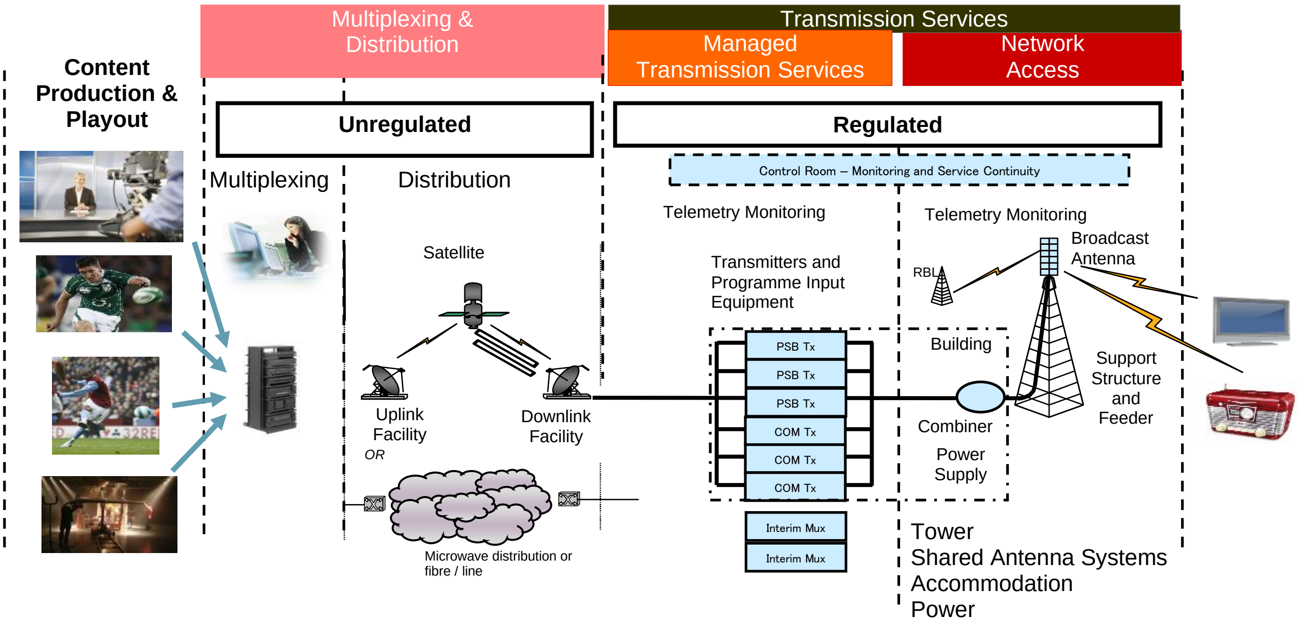
The regulated part of the business sits within Media & Broadcast, with an element of the Corporate functions requiring apportionment. To ensure allocations based on revenue measures are not distorted, results relating to Satellite and Media, Digital Platforms and Smart Utilities Networks have been removed where appropriate.

Non-regulated 700 MHz Clearance revenues are also removed from revenue allocation methodologies where appropriate, in line with previous years.

NA and MTS services represent sub-categories of the regulated business within Media & Broadcast. The Other category represents the remaining non-regulated business included in the RA for the purposes of reconciliation to the consolidated financial statements. The table below shows the business functions, their key cost centres and how these are represented within the regulated business:



Within the Media & Broadcast segment, Terrestrial Broadcast contains the regulated NA and MTS business and Non-Regulated (classified as Other) activities. Satellite & Media and Digital Platforms, also known as Commercial Video Channels, and Smart Utilities Networks are classified as Other. The Operations, Technology, and Corporate functions provide support services across the entire commercial business and as such require attribution to the regulated business activities (NA and MTS) and non-regulated activities (Other).



The RA analyse the activities within the Commercial, Operations, Technology, and Corporate functions into two core categories: NA and MTS with all remaining Other activities being included in the RA only in order to support reconciliation to the consolidated financial statements.

NA and MTS can be defined as:

- Network Access - a package of services including combining output from transmitters and broadcasting the combined signal from antennas, located on suitable masts or other structures. The provision of NA will include access to the following:
  - Masts and towers
  - Antenna systems including feeders and combining units
  - Buildings and/or cabins
  - Power systems including back-up power in a form of fixed generators
  - Existing re-broadcast links (receiver antennas) at relay stations
  - Remote monitoring of NA infrastructure.

- Managed Transmission Service - a package of services including some or all of network design, procurement and installation of transmitters, network monitoring (monitoring of the MTS infrastructure), quality assurance of the signal and maintenance of the transmission equipment but excluding: the provision of programmes and other content for each channel, the transfer of the channels content to a multiplexing centre and blending them into a single digital signal. As such, MTS includes a mixture of service provision and return on assets.

2.3 Allocation Bases

2.3.1 Overview

The Group maintains its core accounting records in a manner which allows for revenues, costs, assets and liabilities to be separated into the various functions noted above.

Once costs have been analysed by function, these can then be attributed either directly or indirectly to NA, MTS or Other.

Where costs, assets and liabilities are captured at a total company level and fall into the Operations, Technology and Corporate functions, these require further analysis, management apply agreed apportionment methods to allocate the costs into the regulated activities presented in the RA.

Where data is recorded in the general ledger by site location code (for example fixed assets and rent costs) the windloading methodology (see section 2.3.9.1) is used to allocate the site-specific shared costs/assets between regulated and non-regulated activities.

2.3.2 Revenue

Revenue is shown net of VAT (revenue is stated excluding the exceptional COVID-19 radio discounts and service credits noted in 1.4.2 and 1.4.3) and is extracted directly from the accounting records and customer billing system. Revenue is coded at source to the product to which it relates.

Revenue is further analysed and allocated to NA, MTS or Other using its product classification based on contract values, unless the contracts are bundled.

For bundled contracts which do not have a specific price for each service provided, allocation is required as follows:

- BBC bundled television contract revenues are split in accordance with the reporting contract cost model agreed with the BBC. The remaining television contracts with Digital 3 and 4 and SDN are split using the respective proportions of NA, MTS and Other charges identified in their contracts.

- BBC bundled radio contract revenues are split in accordance with Schedule 13 (radio allocations) of the New Radio Agreement (“NRA”) with the BBC.

- Commercial radio unbundled revenues are allocated directly to NA, MTS or Other. Bundled revenues are split based upon an analysis of radio contracts renewed or amended on new terms (derived from cumulative radio reference offers across an indicative period), to estimate the portion of regulated revenue and how this is split between NA and MTS. Pass-through elements such as rent & rates are allocated to NA, electricity to Other.

2.3.3 Costs – Cost of Sales (“COS”) and Operating Costs.

All costs are recorded in cost centres with clearly defined activity. COS are incurred directly by the Commercial function and are allocated to the regulated business using methodologies identified in 2.3.3.1. All other costs incurred directly by the Commercial function are captured in Commercial cost centres and are allocated using methodologies outlined in 2.3.3.2. Costs allocated to the Operations, Technology and Corporate functions are allocated to the regulated business using methodologies identified in 2.3.3.3, 2.3.3.4, and 2.3.3.5 below.

Shared Regulated Business Costs

Where shared regulated business costs are not directly attributable to NA or MTS activities these have been allocated based on a number of methodologies, based on the cost driver:

- The RAB valuation - The percentage split is 86% NA and 14% MTS for TV and 95% NA and 5% MTS for Radio based upon a management estimate informed by data available from the valuation of the RAB carried out in 2012. The valuation has been updated annually by management reflecting RPI to support Reference Offer pricing for TV and radio as outlined in section 1.4;

- Revenue percentages calculated as part of the revenue workings outlined in 2.3.2, attributable to TV NA, TV MTS, Radio NA and Radio MTS;

- Oracle Time & Labour (“OTL”) percentages calculated as part of the labour workings outlined in 2.3.9.2, attributable to TV NA, TV MTS, Radio NA and Radio MTS. OTL is the Arqiva time recording system that captures employee time, employee skill and hourly rate; and provides a dataset that is used for cost allocation in the RA.

2.3.3.1 Cost of Sales

The allocation methodology used for each of the classification categories are as follows:

- Rent and rates
  These costs are charged on a site by site basis and are therefore allocated directly to sites on an as incurred basis. Where Broadcast sites share common infrastructure with other services (as part of our Smart Utilities Networks business), the windloading methodology (described in the non-financial data section 2.3.9.2 below) is used to allocate the regulated/non-regulated elements across both customer segments. Satellite & Media and Smart Utilities Networks only sites are allocated directly to Other, as no regulated infrastructure is present on these sites;

- Power
  Power is allocated directly from supplier invoices to sites as incurred. The majority of Media & Broadcast electricity is consumed by MTS equipment. These costs are a pass-through to the customer (no margin being earned by AGL) and categorised as Other;

- Circuits
  The majority of circuits and telephony costs are consumed within the Commercial function and are procured directly for a specific customer contract. It is possible for broadcasters to procure their requirements directly from a supplier, therefore the costs associated with this service are Non-Regulated and classified as Other;

- Intercompany charges
  These costs are non-regulated and therefore classified as Other;

- Labour COS
  This COS represents an allocation of time booked against internal billable projects using OTL (described in the non-financial data section 2.3.9.2);

- Maintenance costs
  Maintenance costs relate to external third-party contracts and services for the maintenance of the regulated business infrastructure and equipment, they are allocated by revenue;

- Other COS
  The majority of other COS within Commercial relate to satellite and microwave links which are non-regulated and therefore the costs are classified as Other. COS relating to Smart Utilities Networks are non-regulated and included in the RA as Other for the purpose of reconciling to the AGL consolidated financial statements;

2.3.3.2 Commercial Operating Costs

The RA model allocates Commercial operating costs based on the cost centres and the nature of the activity within the cost centre, with the exception of:

- Employee and agency related costs such as salaries are allocated using OTL derived percentages. These percentages are driven by the value of labour time recorded against projects which have been classified in our project accounting system as NA, MTS, Support and Non-Regulated (see section 0on non-financial data for further information);

- Commercial operating costs also include recharges for billable labour, capitalised overheads and expensed labour, a separate allocation is used for these costs to ensure greater accuracy by allocating based on the activity that is driving the recharges using OTL data;

Commercial operating costs are allocated into 10 cost centres, which are:

- Media and Broadcast Management
  Media & Broadcast is the subsection of the commercial team that looks after all Broadcast products. The costs incurred within this cost centre relate to the Media & Broadcast management team and support the generation of revenue for all Broadcast products, therefore using a revenue allocation excluding Smart Utilities Networks is reflective of the total cost within this cost centre;

- Pre Sales
  The Commercial costs (excluding labour) within this cost centre relate to management of the entire Commercial function, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Utilities Management
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Commercial Radio
  The operating costs (excluding labour) within this cost centre relate wholly to the support of sales and revenue streams for commercial radio customers, therefore using a radio revenue allocation is reflective of the total cost within this cost centre;

- Sales – France
  This cost centre is part of Satellite & Media and therefore non-regulated. All costs are allocated to Other;

- Sales – Broadcast
  This cost centre is part of Commercial Video Channels and therefore non-regulated. All costs are allocated to Other;

- Sales – Global Media
  This cost centre is part of Satellite & Media and therefore non-regulated. All costs are allocated to Other;

- Sales – PSB
  The operating costs (excluding labour) in this cost centre relate to the sales team that manage the contracts with Public Service Broadcast customers, therefore using a revenue allocation method excluding Commercial Video Channels and Smart Utilities Networks revenue is reflective of the total costs within this cost centre;

- Accounts Management Water
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Commercial Management DCC
  This cost centre covers costs associated with managing Arqiva's relationship with The Data Communications Company. It is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other.

Labour related costs are allocated on the basis of Commercial salary costs (employee only, agency only or weighted average) using OTL derived percentages.

Exceptions

- Bank charges and foreign exchange transactions predominantly relate to non-regulated foreign transactions and are classed as Other.

2.3.3.3 Operations Operating Costs

Operations operating costs are allocated into 23 cost centres, which are:

- Operations Management
  Operating costs (excluding labour) within this cost centre relate to management of the entire Operations function, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- S.H.E.
  This covers the Group's Safety, Health & Environment team, Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Field Operations
  Operating costs (excluding labour) within this cost centre relate to field operations for the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Service Operations Management
  Operating costs (excluding labour) within this cost centre relate to management of the operations centres which support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Operations Centre – Emley Moor
  Operating costs (excluding labour) within this cost centre relate to the operations centre at Emley Moor which manages activity across the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Operations Centre – Crawley Court
  Operating costs (excluding labour) within this cost centre relate to the operations centre at Crawley Court which manages activity across the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Operations Centre – Paris
  Operating costs (excluding labour) within this cost centre relate to the operations centre in Paris which only manages satellite activity, therefore it is non-regulated and all costs are allocated to Other;

- Service Operations NMC – Emley Moor
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Sites Management Team
  Operating costs (excluding labour) within this cost centre relate to the management of the Group’s portfolio of sites, therefore using an average windloading allocation is reflective of the total cost within this cost centre;

- CAD Services
  The operating costs (excluding labour) relate to Computer Aided Design (CAD) services within this cost centre and support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Structures
  Operating costs (excluding labour) within this cost centre are incurred predominantly by the Television and Radio structures, therefore using a revenue allocation excluding Commercial Video Channels and Smart Utilities Networks is reflective of the total cost within this cost centre;

- Facilities
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Estates
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Service Management
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Operations Customer Reporting
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Service Desk - IT
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Service Desk – Utilities
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Service Design & Transition
  This cost centre manages service design through to delivery, improving the quality of services and the management of associated stakeholders. Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Inventory and Demand
  This cost centre is responsible for managing correct levels of consumable inventory required to meet the planned and reactive demands of the Broadcast business. Operating costs (excluding labour) within this cost centre relate to Media & Broadcast, therefore using an allocation excluding Smart Utilities Networks revenue is reflective of the total cost within this cost centre;

- Warehouse & Logistics
  This cost centre is responsible for the management of our inventory warehouses and the logistics and transportation costs of shipping equipment within Arqiva. Operating costs (excluding labour) within this cost centre relate to Media and Broadcast, therefore using an allocation excluding Smart Utilities Networks revenue is reflective of the total cost within this cost centre;

- Technical Repair
  This cost centre is responsible for maintaining or repairing equipment so that it may go back into service and management of costs with test equipment suppliers. Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Scheduling & Access
  Operating costs (excluding labour) within this cost centre relate to the scheduling and site access for field engineers, therefore using an allocation derived from the OTL data for Field Operations is reflective of the total cost within this cost centre;

- Service Management & Customer Experience
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre. The Service Management and Customer Experience cost centres were combined in FY24. In both FY23 and FY24 all costs were allocated based on total revenue, therefore this change has not had an impact on the RA

Labour related costs are allocated on the basis of Operations' salary costs (employee only, agency only or weighted average) using OTL derived percentages.

Exceptions

- Bank charges and foreign exchange transactions predominantly relate to non-regulated foreign transactions and are classed as Other.

2.3.3.4 Technology Operating Costs

Technology operating costs are allocated into 38 cost centres, which are:

- Technology Senior Management Team
  Operating costs (excluding labour) within this cost centre relate to management of the entire Technology function, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Architecture Commercial
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Spectrum Planning
  Operating costs (excluding labour) within this cost centre relate wholly to the support of sales and revenue streams for Terrestrial Broadcast products, therefore a revenue allocation method excluding Commercial Video Channels and Smart Utilities Networks revenue is reflective of the total costs within this cost centre;

- Engineering Management
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Radio Transmission
  Operating costs (excluding labour) within this cost centre relate wholly to the support of sales and revenue streams for radio customers, therefore using a radio revenue allocation is reflective of the total cost within this cost centre;

- OSS, AI & ML (Open Source Software, Artificial Intelligence & Machine Learning)
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- DTT Transmission
  Operating costs (excluding labour) within this cost centre relate to sales and revenue streams for Broadcast customers, therefore using a Broadcast Revenue TV Only allocation is reflective of the total cost within this cost centre;

- Video & Audio Processing Ops
  This cost centre is part of Satellite & Media and therefore non-regulated. All costs are allocated to Other;

- Video & Audio Processing Design
  This cost centre is part of Satellite & Media and therefore non-regulated. All costs are allocated to Other;

- RF
  The operating costs (excluding labour) within the cost centre relate to antenna engineers and wholly support the sales and revenue streams for Terrestrial Broadcast products, therefore a revenue allocation method excluding Commercial Video Channels and Smart Utilities Networks revenue is reflective of the total costs within this cost centre;

- Media & Broadcast Management
  This team manage the engineers who look after Media & Broadcast products. Operating costs (excluding labour) within this cost centre relate to sales and revenue streams for Broadcast customers, therefore using a revenue allocation excluding Smart Utilities Networks is reflective of the total cost within this cost centre;

- Power & Environment
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Software Development & Support
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- DUK MDS
  The Digital UK Metadata Delivery System ("DUK MDS") cost centre contains costs associated with Freeview Play and supports the Digital Platforms business. It is therefore non-regulated and all costs are allocated to Other;

- Digital Enterprise Platforms
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Platform Build, Test & Release
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Utilities
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Security Operations
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Network Operations
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Circuit Delivery
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Network Management
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Data Centre & Security Design
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Network Design
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- IT Data & Information Management
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Technical Security Assurance
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- InfoSec Governance, Risk & Compliance
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Transformation
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Transformation Other
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- IT Transformation
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Media Products
  Operating costs (excluding labour) within this cost centre relate to product development for Media & Broadcast, therefore using revenue allocation excluding Smart Utilities Networks is reflective of the total cost within this cost centre;

- Utilities Product
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

  Product Marketing – Utilities
- This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other.

- Product Marketing – Media
  The operating costs (excluding labour) within this cost centre relate to the generation of revenue for all Broadcast products therefore using revenue allocation excluding Smart Utilities Networks is reflective of the total cost within this cost centre;

- PD Management
  The operating costs (excluding labour) of the management of the project and programme managers in the portfolio delivery team, support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Programme & Project Delivery - M&B
  Operating costs (excluding labour) within this cost centre relate to the generation of revenue for all Broadcast products therefore using revenue allocation excluding Smart Utilities Networks is reflective of the total cost within this cost centre;

- Programme & Project Delivery – Utilities
  This cost centre is part of Smart Utilities Networks and therefore non-regulated. All costs are allocated to Other;

- Programme & Project Delivery - Digital Tech
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

- Business Process Management
  Operating costs (excluding labour) within this cost centre support the whole Arqiva business, therefore using a total revenue allocation is reflective of the total cost within this cost centre;

Labour related costs are allocated on the basis of Technology salary costs (employee only, agency only or weighted average) using OTL derived percentages.

Exceptions

- Bank charges and foreign exchange transactions predominantly relate to non-regulated foreign transactions and are classed as Other.

2.3.3.5 Corporate Function Operating Costs

The Corporate functions undertake a number of activities which support the whole business, namely Finance, Procurement, Legal and People & Culture. Accordingly, these corporate costs are allocated across the Commercial business. These are known as corporate cost allocations.

The RA model allocates total corporate costs on a total revenue basis.

Specific allocation methods are used for the following corporate cost categories:

- Corporate Adjustments

The nature of costs captured within corporate adjustments are usually specific to the business area to which they relate. Any such items are analysed on a line-by-line basis.

- Bank charges and foreign exchange transactions predominantly relate to non-regulated foreign transactions and are classed as Other.

2.3.3.6 Depreciation

NA, MTS and non-regulated depreciation is identified based upon the regulatory assets classification determined as part of the fixed assets methodology – see 2.3.5.

Accrued depreciation on regulated broadcast assets that have been completed but not yet added to the Regulated Fixed Asset Register ("RFAR") are allocated using the RAB (see section 1.4 and 2.3.5).

Depreciation on right-of-use assets is allocated directly to sites based on the nature of activity occurring on the site. Where Broadcast sites share common infrastructure with other services (as part of our Smart Utilities Networks business), the windloading methodology (described in the non-financial data section 2.3.9.1 below) is used to allocate the regulated/non-regulated elements across both customer segments. Satellite & Media and Smart Utilities Networks only sites are allocated directly to Other, as no regulated infrastructure is present on these sites.

2.3.3.7 Exceptional Costs

The exceptional costs for the Group are extracted from the accounting system on a business stream and cost centre basis. Costs are analysed and allocated based on the nature of the cost incurred.

Categories of exceptional cost include but are not limited to:

- Restructuring, redundancy and organisational transformation - these costs are allocated using the corporate cost allocation based on revenue.

2.3.4 Capital Employed

Capital employed comprises:

- Total assets, excluding goodwill, intangibles arising from acquisitions and retirement benefits; less
- Total liabilities, excluding dividends payable, borrowings and retirement obligations.

Deferred tax is included within debtors and has been treated as Other, whilst current tax liability is within Other creditors and has also been classified as Other.

2.3.5 Regulated Fixed Asset Register ("RFAR")

Assets are attributed to NA and MTS by firstly considering the site location to identify whether assets are located on broadcast sites. Assets which do not have any broadcast use or are at sites which do not broadcast regulated services are classified as non-regulated. Each asset type is subsequently sub-divided into a specific asset category (e.g. masts, buildings, power, antennas, land and transmitters) and finally these asset categories are then apportioned using the following steps:

1. Direct Allocation – where possible, assets are allocated directly to NA, MTS or Other based upon asset category as described above.

2. Network Access asset categories not allocated directly during step 1 are shared NA assets with other business divisions, such as Smart Utilities Networks. These assets (e.g. buildings, masts,

land) are further categorised into regulated/non-regulated using windloading allocations, described in more detail in the non-financial data section 2.3.9.1 below.

3. An element of the head office assets are allocated to NA, MTS or Other based upon the total Corporate division allocation methodology into Media Networks NA, MTS and Other (see section 05).

Capitalised overhead costs are allocated between NA, MTS and Other based on the average split of total assets (excl. capitalised labour).

Telemetry systems relating specifically to the Digital Switch Over ("DSO") project have been allocated 62%/38% (NA/MTS) based on expert operational assessments from the DSO operations team.

Telemetry systems relating specifically to Radio have been allocated 60%/40% (NA/MTS) based on expert operational assessments from the engineering team.

Right-of-use assets are allocated directly to sites based on the nature of activity occurring on the site. Where Broadcast sites share common infrastructure with other services (as part of our Smart Utilities Networks business), the windloading methodology (described in the non-financial data section 2.3.9.1 below) is used to allocate the regulated/non-regulated elements across both divisions. Satellite & Media only sites are allocated directly to Other, as no regulated infrastructure is present on these sites.

2.3.6 Work In Progress ("WIP")

In order to attribute capital WIP balances to NA, MTS or Other, the regulatory project classification has been used. Projects are classified by project managers at the project initiation stage, as described in section 2.3.9.2. Where a regulated project is identified as relating to both NA and MTS, this is allocated using the RAB valuation as described above in section 2.3.3.

Projects relating specifically to the 700 and 800 MHz Clearance project not directly attributable to NA or MTS are allocated using the proportion of actual spend of 700 and 800MHz Clearance of assets, as per the RFAR (see section 2.3.5).

For site NA infrastructure projects, the capital WIP balances have been allocated using windloading factors. This is in line with the allocation of NA infrastructure assets within the RFAR (see section 2.3.5).

2.3.7 Other Assets

These balances are allocated based upon their key driver in the income statement.

Debtors and prepayments – the debtors balance is analysed by business function, with accounts that are specifically non-regulated being excluded. Regulated related debtor balances are allocated by revenue, unless a superior method is applicable such as using third party costs (excluding labour) for prepayments. Corporate balances are first allocated by divisional revenue before being allocated as per regulated related balances.

Cash – the total cash balance, removing cash for other purposes such as refinancing and debt servicing, is attributed to NA, MTS and other using the proportion of Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") arising from each regulated activity.

2.3.8 Liabilities

These balances are allocated based upon their key driver in the income statement.

Creditors (including over and under 1 year) – the creditors balance is analysed by business function, with accounts that are specifically non-regulated being excluded. Regulated related creditor balances are allocated by third party costs which include agency costs but exclude payroll based labour, unless a superior method is applicable such as revenue for deferred income. Corporate balances are first allocated by divisional revenue before being allocated as per regulated related balances.

Provisions – accounts are analysed and allocated into NA, MTS and other depending on the account drivers for each provision held. Accounts that are specifically non-regulated are excluded.

2.3.9 Non-Financial Data

Certain attributions to NA, MTS and Other are made using non-financial data. The use of such data and its application is consistent with methodologies applied in HPDTT and radio Reference Offers previously audited for Ofcom.

The key methodologies used are as follows:

2.3.9.1 Windloading

Windloading is a technical assessment of the base moments in relation to each antenna and associated feeder and apportioned bare structure on a Broadcast site. The base moment of each antenna on a mast is a function of the size and height of the antenna and related feeder (cable). The windloading base moment for a site that relates to each category of antenna (Broadcast or Other) is expressed as a percentage of the total base moment.

Windloading is a recognised methodology for attributing NA asset values and costs as it relates common services to the underlying cost drivers. It has been used extensively in various documents that have been reviewed and approved by Ofcom and their appointed advisors e.g. windloading was used as a cost allocation base in the Reference Offers for DSO and radio Reference Offers.

2.3.9.2 Oracle Time & Labour (OTL)

OTL is a time recording system which includes a dataset for cost allocation based upon time recorded data using employee skills based hourly rates.

Employees record time to projects which are subsequently allocated to relevant cost centres.

Projects are classified into three main categories; billable (COS), expense (operating expenditure) and capital (classed as Other – balance sheet).

The labour cost allocated to NA, MTS and Other is derived using the following approach:

- Project classifications

  All employees in Arqiva are allocated to a cost centre. Where employees charge their time to a Regulated NA project, this is wholly attributable to NA. The hours recorded against specific regulatory projects are multiplied by the equivalent skill-based rate per hour, to give an overall labour cost for the time recorded against each project.

Projects have been categorised into NA, MTS, support and non-regulated based upon their regulatory classification (TV/Radio/Other) assigned by project managers at project set up. Projects are reviewed by the finance team on a monthly basis to ensure accuracy. Projects which have no clear distinction between NA and MTS but are clearly regulatory are divided using the RAB valuation (see section 2.3.3).

Support projects are projects which have been determined to support the whole Arqiva business and are therefore allocated based on total revenue.

Corporate – the primary purpose of the Corporate functions are to support the AGL revenue generating business areas, an element of the hours charged to Corporate projects need to be recharged back into the regulated business. The process is as follows:

- All Corporate projects are classified as regulated, support or non-regulated by establishing whether the project has an impact on the regulated business (e.g. the Improve the Tech project, designed to improve systems and processes for Operations, Technology and the Corporate functions was classed as a support project. A proportion of those costs were allocated into the regulated business to reflect that this project supported the whole business).

A reconciliation is performed from OTL to the general ledger to ensure that any under/over-recovery and employees that do not time record are considered. Where the under recovery is less than 25% of the cost recorded in the general ledger it is allocated to the regulated business based on a weighted average of the OTL time recording, where it is over 25% it is allocated to the regulated business based on the nature of the activity in the relevant cost centre. Where there is an over recovery of the cost recorded in the general ledger it is allocated to the regulated business based on a weighted average of the OTL time recording.