



Arqiva Broadcast Holdings Limited

(formerly Macquarie UK Broadcast Holdings Limited)

**Regulatory Accounting Principles and
Methodologies
2013/14**

Prepared by Regulatory Finance

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1 Regulatory Accounting Principles

1.1 Arqiva Broadcast Holdings Limited

Arqiva Broadcast Holdings Limited (ABHL, formerly Macquarie UK Broadcast Holdings Limited) 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 Macquarie UK Broadcast Ventures Limited, the ‘Undertaking’) to prepare annual Regulatory Accounts (“RA”). 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 given to the Competition Commission.

It is intended that this document is read in conjunction with the ABHL Statutory Consolidated Financial Statements (SCFS); this document will be updated annually in the event of any changes to either the RAPM or detailed attribution methods.

1.2 Basis of preparation and form of Audit Opinion

The terms of the Undertakings require that the RA be prepared and audited on a Fairly Presents (FP) basis. This takes account of key regulatory reporting principles such as Cost Causality (see section 1.4 below). At the time that the Undertakings were agreed it was recognised that the Group did not have sufficient maturity of understanding, systems or processes to prepare RA on this basis. Accordingly it was agreed with The Office of the Adjudicator (“TOA”) that the Group would initially prepare RA on a properly prepared (PP) basis and would work towards a FP basis of preparation and related audit opinion over time.

Accordingly, the published RA for the year ended 30 June 2013 (FY13) and previous accounting periods were prepared and audited on a PP basis.

The RA for the year ended 30 June 2014 (FY14) will be prepared and audited on a FP basis.

1.3 Organisation Realignment

During FY14 ABHL implemented an organisational realignment which was designed to enable growth and customer focus by:

- supporting clear accountabilities, alignment and organisation effectiveness,
- creating effective central functions/shared services and
- focusing on talent, capabilities, succession & careers

This realignment resulted in a number of Cost Centres (“CC”) previously included in the Business Operations (“Bops”) structure to be aligned to the individual divisions to which they relate. The previous Broadcast and Media (“B&M”) Division was split into Terrestrial Broadcast and Satellite Divisions. This resulted in the ABHL Divisional structure consisting of 5 main divisions; Terrestrial Broadcast, Satellite, Telecoms, Digital Platforms and Smart & M2M with a supporting Corporate function (including Technology).

The realignment came into effect during October 2013, transactions prior to this period have been transferred to the new CC reflecting the current group divisional structure; which is assumed to have been in place for the full financial period (year ended 30 June 2014).

1.4 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 clear description of the accounting and attribution methods used in the production of the RA.

- **UK GAAP:** the RA will be derived from the Statutory Consolidated Financial Statements (“SCFS”) of ABHL prepared in accordance with UK Generally Accepted Accounting Principles as defined by the Group accounting policies set out in the SCFS unless any specific deviation is required as a result of conforming to this document.
- **Causality:** costs are attributed to cost components, services and business in accordance with the activities which cause the cost to be incurred. Revenues (including transfer charges), cost components, assets and liabilities are attributed to NA, MTS and 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
- **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.
- **Data Source Accuracy & Completeness,** empirical data for the CCs is subject to demonstrable financial controls and governance. Regulatory Financial Reporting must encompass all revenues, costs, assets and liabilities of ABHL.

Regulatory Financial Reporting must maintain an adequate degree of accuracy, such that the information included in the Regulatory Accounts is free from material errors, misstatements or double-counting.

- **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 all available relevant empirical data. Cost allocations are not intended to benefit any particular product/service/business sector or to benefit either Arqiva or any other operator.

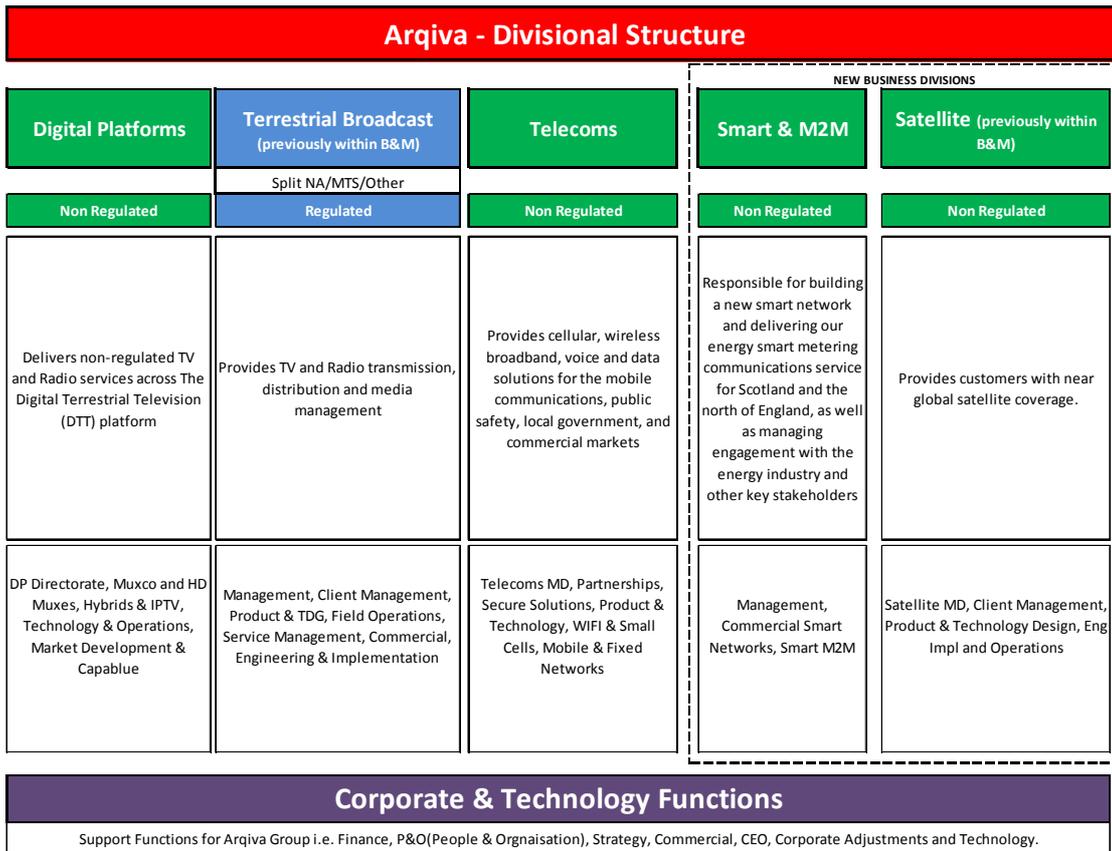
2 Attribution Methods

2.1 Introduction

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 RA are derived from the general ledger used to prepare the SCFS of ABHL, (which capture all of ABHL’s businesses) with the reporting requirements of the Undertakings overlaid.

2.2 Organisation Structure

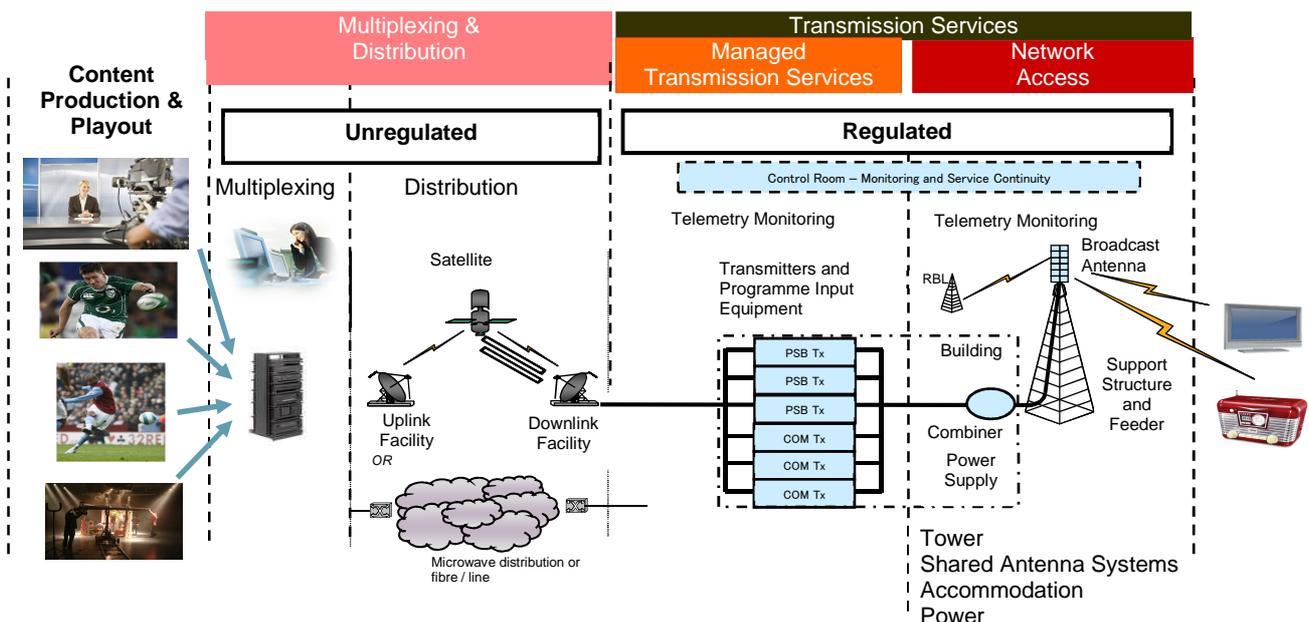
The ABHL Group owns and operates a portfolio of communications infrastructure and provides television and radio transmission services, tower site rental, media services and radio services in the United Kingdom (UK) and satellite services in the UK, Europe, United States of America (USA) and Asia. There are five divisions within the group: Terrestrial Broadcast, Satellite, Telecoms, Digital Platforms and Smart & M2M together with a supporting Corporate function (including Technology). NA and MTS services represent sub categories of the Regulated Business and Other represents Non-Regulated business included in the RA for the purposes of reconciliation to the SCFS. The table below shows the divisions and how these are represented within the Regulated Business:



Note: Network Access and Managed Transmission Services represent sub categories of the Regulated business and Other represents the non-regulated business



Terrestrial Broadcast contains the regulated NA and MTS business and Other non-regulated activities. Satellite, Telecoms, Digital Platforms and Smart & M2M Divisions are classified as Non-Regulated. The Corporate Function provides support services across all divisions and as such requires attribution to the Regulated Business activities (NA and MTS) and Non-Regulated activities.



The RA analyse the activities within the Terrestrial Broadcast (including overhead allocations from other Divisions) and Corporate Division into two core categories: Network Access ('NA') and Managed Transmission Services ('MTS') with all remaining activities 'Other' being included in the RA only in order to support reconciliation to the SCFS. 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 NA and MTS activities and Other. Indirect attributions are subject to allocation processes based on judgement as described in the RAPM. The RA apply the following definitions of NA and MTS:

- 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:
 1. Masts
 2. Antenna Systems including feeders and combining units
 3. Buildings and/or cabins
 4. Power systems including back-up power in a form of fixed generators
 5. Existing Re-Broadcast Links (receive antennas) at Relay Stations
 6. Remote monitoring of all the Stations
- Managed Transmission Service - a package of services including some or all of network design, procurement and installation of transmitters, network monitoring, 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 Valuation and Measurement

The SCFS are prepared on a historical cost basis. Fixed assets are held at cost, modified for the fair value of those assets acquired through business combination. Section 2.4.5 sets out the most recent dates at which fair value exercises were undertaken.

2.4 Allocation Bases

2.4.1 Overview

The ABHL Group has structured the chart of accounts in its main accounting system to allow for revenues, costs, assets and liabilities to be separated into the various divisions and support functions noted above. Certain costs, assets and liabilities are captured at a total company level and require further analysis and management judgement to apportion to the relevant Divisions and further into the regulatory activities presented in the RA.

The following key components are used in preparing the RA:

- Each Division is made up of a number of business streams. Business streams reflect management ownership of revenue, costs or balance sheet balances.
- Each business stream is further disaggregated into cost centres such that for those business streams which cannot be wholly and directly allocated to a regulatory business, a further analysis and attribution of revenues, costs and balance sheet is performed by cost centre.
- Within these business streams and cost centres, allocation methodologies will differ by account code depending on their nature (e.g. the allocation principles for trade debtors will differ to those of salaries).

Where data is recorded in the general ledger by site location code (for example fixed assets and rent costs) the windloading methodology (see section 2.4.8.1) is used to allocate these site specific shared costs/assets between Regulated and Non-Regulated activities.

2.4.2 Revenue

Revenue is shown net of VAT and discounts and is extracted directly from the accounting records and customer billing system. Revenue is coded at source to the divisions the income is attributable to.

Terrestrial Broadcast Revenue is further analysed and allocated to NA, MTS or Other using product and customer details or where this relates to Bundled Revenues as described below.

Separate contracts exist for HPDTT (High Power Digital Terrestrial Television) products which are directly attributed to NA, MTS and Other (e.g. distribution). Therefore, no allocation estimates need to be applied to these contracts.

Bundled revenue services do not have a specific price for each service provided and therefore require allocation as follows:

- Commercial radio bundled revenues are split based upon an analysis of radio contracts renewed or amended on new terms (derived from radio reference offers from FY13), to estimate the portion of regulated revenue and how this is split between NA and MTS. Pass Through elements such as Rent & Rates and Electricity are allocated between NA and Other.
- BBC bundled television contract revenues are split in accordance with the reporting contract cost model agreed with the BBC. The remaining bundled television contracts are split using the respective proportions of NA, MTS and Other charges identified for HPDTT television contracts.

Revenue relating to Digital Switch Over (DSO) corporate overheads has been allocated between NA and MTS on the basis of labour hours booked to projects within the Oracle Time & Labour (OTL) system which are allocated to NA and MTS activities.

Revenue relating to Local TV is based on the split between NA and MTS in accordance with the contract.

2.4.3 Costs

All costs are captured in cost centres which are unique to the five Business divisions and the Corporate Functions. Costs allocated to Terrestrial Broadcast and Corporate Functions are extracted from the accounting system and analysed further into NA, MTS and Other. The process is further explained below.

2.4.3.1 Terrestrial Broadcast Division

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 into NA, MTS and Other (see section 2.4.8.2 on Non-Financial Data for further information).

Terrestrial Broadcast operating costs are allocated by analysing the CC into the 7 Business Areas (BAs), which are: Field Operations, Client Management, Commercial, Engineering and Implementation, Management, Product & Technology and Service Management.

- Field Operations

Operating costs within Field Operations are incurred and driven from the field engineers' activity and the projects they are working on which is recorded within OTL. It is considered appropriate to use the empirical data recording within OTL as reflective of total costs within these CCs

- Client Management

It is considered most appropriate to analyse by CC as these are specific to TV and Radio products. The Regulated Asset Base (RAB) valuation (see section 2.4.8.3) allocation is used to obtain the split into NA and MTS as the RAB provides a breakdown of the assets which are used to generate the Regulatory Revenues for both TV and Radio.

- Commercial

Operating costs within Commercial are incurred and driven from the employee activity (projects) as recorded within OTL. It is considered appropriate to use the empirical data recording within the OTL as the allocation methodology, as reflective of the total costs within these CCs.

- Engineering & Implementation

Operating costs incurred within Engineering & Implementation are driven from the employee's activity and the projects they are working on. It is considered that the most appropriate allocation methodology is OTL as reflective of the activity recorded within these CCs. Maintenance contract costs are analysed individually in conjunction with Maintenance contract costs in Service Management.

- Management

Operating costs within this BA are considered to relate to the support of sales and revenue streams within Terrestrial Broadcast, therefore using Terrestrial Broadcast Revenue allocation is reflective of the total cost within Management.

- Product & Technology

Operating costs within this BA are considered to relate to the support of sales and revenue streams with Terrestrial Broadcast, therefore using Terrestrial Broadcast Revenue allocation would be reflective of the total cost within this CC.

- Service Management

Operating costs within this BA are considered to relate to the activity recorded within OTL and therefore the OTL allocation methodology is applied as relative to the activity within the CCs. Maintenance contract costs are analysed individually in conjunction with Maintenance contract costs in "Engineering & Implementation".

Exceptions

- Bank charges and foreign exchange transactions predominantly relate to non-regulated foreign transactions and are classed as Other.
- Bad Debt transactions are typically one-off in nature and are allocated to specific Business Units through detailed analysis based upon the transaction. Maintenance contract costs are analysed individually.

2.4.3.2 Cost of Sales

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

- **Rent and rates** are charged on a site by site basis and are allocated directly to sites on an as incurred basis. Where Broadcast sites share common infrastructure with other services, such as Mobile Telecommunication, the Windloading methodology (described in the Non-Financial Data section 2.4.8.1 below) is used to allocate the Regulated/Non-Regulated elements across both divisions (Terrestrial Broadcast and Telecoms). Satellite only sites are allocated directly to Other, as no regulated infrastructure is present on these sites.
- **Power** is allocated directly from supplier invoices to sites on an as incurred basis. The majority of Terrestrial Broadcast electricity is consumed by customer specific MTS equipment. These costs are a pass-through to the customer (no margin being earned by ABHL) and categorised as Other.

There is an element of unavoidable power cost in the delivery of sites, e.g. mast beacons and security. As it is uneconomical to meter this estimated £0.3m NA cost for all Terrestrial Broadcast sites, this category has been excluded from direct Power Cost of Sales in the RA.

- **Circuits** - the majority of circuits and telephony costs within Terrestrial Broadcast 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'.

- **COS Billable Projects (excluding labour)** – are allocated to NA, MTS and Other using bundled TV and Radio Revenue product analysis.
- **Intercompany COS** – these costs are Non-Regulated and therefore classified as 'Other'.
- **Other COS** - the majority of Other COS within Terrestrial Broadcast relate to Satellite and Microwave Links which are Non-Regulated therefore the costs are classified as 'Other'.
- **Labour COS and Maintenance** - Labour COS represent an allocation of time booked against Terrestrial Broadcast "billable projects" using OTL (described in the Non-Financial data section 2.4.8.2).

Maintenance costs relate to third party invoices for Regulated Business infrastructure and equipment, costs are allocated based upon an analysis of maintenance contracts.

2.4.3.3 Corporate / Technology Division

Corporate/Technology divisional costs are allocated across the five divisions by analysing the following Business Areas (BA) (Corporate Adjustments, CEO, Finance, P&O, Commercial, Strategy and Property & Infrastructure and Technology).

The resulting costs allocated to Terrestrial Broadcast Division are further allocated across NA, MTS and Other using the proportions in which Terrestrial Broadcast Revenue was allocated.

- CEO

Operating costs are driven from the activities of the CEO and Chairman who support the entire company. It is deemed appropriate to allocate the costs using Full-Time Equivalent (FTE) split across all divisions, as is reflective of the activity within the business. The FTE empirical data is supplied by Central Finance and derived from the actual contracted hours of each employee.

- Corporate Adjustments

The nature of costs captured within Corporate Adjustments are usually specific to the five divisions to which they relate. It is deemed that the costs within the GL account "General Other" are reflective of the total costs within this BA.

- Finance

The empirical FTE is considered the most appropriate allocation methodology as there is a correlation between number of FTE and the size & complexity of the Business Units which Finance resource support.

- People & Organisation (P&O)

P&O support the human resource of the company irrespective of contracted hours; therefore allocation by Headcount using empirical data is considered the most appropriate. The Headcount empirical data is supplied by Central Finance and derived from the actual number of employees in each division

- Commercial

Gross Profit is considered to be the most appropriate cost driver for Commercial activities as they are relative to the maintenance and growth of Gross Profit. This team work closely with colleagues across the business in bringing expertise and best practice in their specialist areas, and in doing so generating competitive advantage.

- Strategy

Gross Profit is considered to be the most appropriate cost driver for Strategy as the activities of the Group Strategy Team include Major Programmes who develop new products that will help grow the profitability of the business.

- Technology (excluding Property & Infrastructure)

The Technology BA supports the activities of the human resource within the business by providing the technological infrastructure from which they can operate. Headcount is therefore considered the most appropriate driver.

- Property & Infrastructure

The Property & Infrastructure Team consists of Corporate Facilities, Electrical, Mechanical & Utilities, Estates & Property, Infrastructure Support, Structures, Computer Aided Design (CAD) & Radio Frequency (RF) Safety. It is considered that the rent and rates percentage allocation would be reflective of the costs within this BA.

Exception

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

2.4.3.4 Exceptional Costs

The exceptional costs for the ABHL Group are extracted from the accounting system on a cost centre and Business Stream basis.

Categories of exceptional cost include but are not limited to:

- Restructuring and redundancy - these costs have been allocated using a mix of revenue and OTL percentages, (the most appropriate basis being used in each case)
- Organisation realignment - these costs have been allocated using revenue
- Corporate finance activities – these costs have been classified as Non-Regulated
- Contract bid costs relating to Smart Metering – these costs have been classified as Non-Regulated

2.4.4 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 allocated to Other, whilst current tax liability is within Other Creditors and has also been classified as Other.

2.4.5 Regulated Fixed Asset Register (RFAR)

The RFAR is produced using the Fixed Asset Register (FAR) within ABHL.

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 Telecoms. These assets (e.g. Buildings, Masts, Land) are further categorised into Regulated/Non-Regulated using Windloading factors, specific to each site location. Windloading allocations are described in more detail in the Non-Financial Data Section 2.4.8.1 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 Terrestrial Broadcast NA, MTS and Other (see section 2.4.3.3)

NA, MTS and Non-Regulated depreciation is identified based upon the Regulatory assets classification determined above.

Capitalised overhead costs are allocated between NA, MTS and Other based on the average split of total assets (excl. capitalised labour and asset categories with no labour input).

Site specific 800MHz Clearance assets are directly categorised to NA or MTS and Programme (non-site specific) assets are allocated based upon the proportion of these directly categorised NA or MTS assets.

Accrued depreciation on assets that have been completed but not yet added to the RFAR is allocated as follows:

1. for all 800MHz Clearance assets based upon actual spend
2. the remaining balance is split using the Regulatory Asset Base (RAB) (see section 2.4.8.3).

Telemetry systems relating specifically to the DSO project have been allocated 62%/38% (NA/MTS) based on expert operational assessments from the DSO Operations Team.

2.4.6 Work In Progress (WIP)

In order to attribute Capital WIP balances to NA, MTS or Other, the Regulatory Project classification of the projects have been used. Projects are classified by Project Managers at the project initiation stage, as described in section 2.4.8.2. Where a Regulated project is identified as "Mix" i.e. split between NA and MTS, this is allocated using the EY RAB valuation NA 83%: MTS 17% ratio as described in section 2.4.8.3.

For large projects such as the Digital Switch Over (DSO) programme, the capital WIP balances supporting the new HPD TT NA assets have been identified and are allocated in full to NA. Windloading is not applied as these costs are incurred wholly and exclusively for the purpose of HPD TT. DSO Capitalised interest has been allocated using the appropriate EY RAB valuation TV NA/MTS split (see section 2.4.8.3)

Projects relating specifically to the 800 MHz clearance project not directly attributable to NA or MTS are allocated using the proportion of actual spend of 800MHz Clearance of assets, as per the RFAR (see section 2.4.5)

For site NA infrastructure projects, the capital WIP balances have been allocated using windloading factors as described in section 2.4.8.1. This is in-line with the allocation of NA infrastructure assets within the RFAR (see section 2.4.5).

Projects relating to Head office assets are allocated using the Corporate Division allocation methodology as described in section 2.4.3.3. This is in-line with the allocation of Head office assets within the RFAR (see section 2.4.5).

2.4.7 Other Balance Sheet

Current Assets and Liabilities – These balances are allocated based upon their key driver in the profit and loss account. See Appendix A.2.

2.4.8 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:

2.4.8.1 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 assets 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

2.4.8.2 Oracle Time & Labour (OTL)

OTL is a time recording system which has been in use for a number of years and 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 Business divisions i.e. an employee in the Terrestrial Broadcast Division may record time against a project which belongs to the Telecoms Division, therefore the costs associated with this time would be Non-Regulated and excluded from the RA.

Projects are classified into three main categories; Billable (Cost of Sales), Expense (Operating Expenditure) and Capital (classified as Other).

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 Business Area based upon their respective cost centre (e.g. Terrestrial Broadcast). Where Terrestrial Broadcast 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.

Terrestrial Broadcast - These projects have been categorised into NA, MTS and Other based upon their Regulatory Classification (TV/Radio/Other) assigned by Project Managers at project set up. All active projects created prior to FY14 were reviewed to ensure correct Regulatory Classification; in addition, all new projects in FY14 were reviewed monthly. Projects which have no clear distinction between NA and MTS but are clearly Regulatory are divided using the RAB valuation (see section 2.4.8.3).

Corporate – The primary purpose of the Corporate Division is to support the ABHL 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 or Non-Regulated by establishing whether the project has an impact on the Regulated Business (e.g. a generic mast inspection project is classed as a regulatory project).
- Regulatory projects are given a secondary classification which identifies which allocation percentage to use to recharge the costs against this project back into the RA (e.g. estates and property projects which relate to owned sites are classified as 'Rates' and the weighted average percentages of Rates costs is used).

A reconciliation is performed from OTL to the General Ledger to ensure that any under/over-recovery and CCs that do not time record within Terrestrial Broadcast are considered. A proportion of this cost is allocated to the Regulated Business based upon Terrestrial Broadcast revenue.

2.4.8.3 NA/MTS RAB Valuation

Where shared Regulated Business costs are not directly attributable to NA or MTS activities these have been allocated 83% NA and 17% MTS based upon a management estimate informed by data available from the EY valuation of the RAB. This valuation has been built up in FY13 and FY14 systematically to support Reference Offer Pricing for TV and Radio. Where balances relate specifically to TV or Radio the appropriate allocation percentage is applied to provide a NA and MTS split.

Appendix A

Working Documents

A.1 Allocation Methodologies Used, Profit & Loss

Regulated Accounts 2013/14

Allocation Principle Executive Summary

ABHL Group

Year Ended 30 June 2014

		Allocation Methodologies Used				
	Direct	OTL	Windloading	Revenue	Other	
Revenue	Wholly attributed to NA and MTS using product and customer billing system, this is done using the account code and Business Stream flags				Bundled revenue: TV - BBC split based upon contract cost model agreed with BBC, the remaining bundled television contracts are split using the respective proportions of NA and MTS charges identified for HPD TT; Radio - split based upon an analysis of current radio contracts to estimate the regulated revenue portion (excluding pass through, such as Power).	
Rent and Rates	Some Rent and Rates costs are charged on a site by site basis and are therefore allocated directly to sites on an as incurred basis.		Certain sites share services with other divisions, such as Telecoms. Non-regulated elements of the cost are removed using the Windloading methodology.			
Labour COS	Projects analysed into NA, MTS and Other based upon Project Description and Project Manager validation	Actual Employee Time recording bookings summarised to provide a split between NA/MTS and Other activities, multiplied by chargeable Rates within OTL.				
Maintenance	Contract data directly attributed to NA, MTS and Other				Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon RAB	
Operating Costs	Projects analysed into NA, MTS and Other based upon Project Description and Project Manager validation	Actual Employee Time recording bookings summarised to provide a split between NA/MTS and Other activities, multiplied by chargeable Rates within OTL.		Terrestrial specific CCs are allocated by Terrestrial revenue	Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon RAB	
Overheads	Accounts specifically outside Regulated business are excluded	Actual Employee Time recording bookings summarised to provide a split between NA/MTS and Other activities, multiplied by chargeable Rates within OTL.		Terrestrial specific CCs are allocated by Terrestrial revenue	Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon RAB	
Exceptional costs		Restructuring costs specific to Business Areas allocated using OTL		Costs relating to ABHL Group costs	Regulatory costs not directly attributable to NA or MTS, split by 83:17 NA:MTS ratio based upon RAB	
Depreciation	Assets directly attributable to NA and MTS identified by asset type flags. Depreciation is based on the same methodology.		Non-regulated elements (such as Telecoms) are removed using the Windloading methodology.			

Direct allocation is the primary allocation methodology where possible, the remaining methodologies are secondary and applied on causality basis as appropriate.

A.2 Allocation Methodologies Used, Balance Sheet

Regulated Accounts 2013/14
Allocation Summary
Year Ended 30 June 2014

Balance Sheet Grouping

Allocation Methodologies Used	Fixed Assets/ Intangible assets & Investments	Debtors	Cash at bank and in hand	Creditors:	Provisions for liabilities and charges
Direct	Accounts specifically non regulated are excluded from the regulated accounts	Accounts specifically non regulated are excluded from the regulated accounts. Wholly attributable accounts allocated directly to MTS		Accounts specifically non regulated are excluded from the regulated accounts	Accounts specifically non regulated are excluded from the regulated accounts
COS (Cost of Sales)		Debtor COS accounts relating to both regulated and non-regulated business are allocated to NA, MTS and Other using COS%		Creditor COS accounts relating to both regulated and non-regulated business are allocated to NA, MTS and Other using COS%	
FTE		Employee driven debtor accounts relating to both regulated and non-regulated are allocated to NA, MTS, Other using FTE%		Employee driven creditor accounts relating to both regulated and non-regulated are allocated to NA, MTS, Other using FTE%	
COS excluding Power, Circuits and Rent & Rates		Debtor accounts relative to COS are allocated using COS excluding Power, Circuits and Rent & Rates% to NA, MTS and Other		Creditor accounts relating to COS relating to both regulated and non-regulated business are allocated to NA, MTS and Other using COS excluding Power, Circuits and Rent & Rates %	
Rent & Rates		Debtor accounts relating to Property are allocated using Rent & Rates %		Creditor accounts relating to Property are allocated using Rent & Rates %	
Total Operating costs excluding depreciation, Circuits, Rent & Rates and Power				Creditor accounts relating to Opex relating to both regulated and non-regulated business are allocated to NA, MTS and Other using Total Operating costs excluding Circuits, Power and Rent & Rates %	
Total Operating costs excluding depreciation, Labour and exceptional costs		Debtor accounts relative to Opex are allocated Total Operating costs excluding depreciation, Labour and Exceptional % to NA, MTS and Other		Trade Creditor accounts relative to Opex are allocated using Total Operating costs excluding depreciation, Labour and Exceptional% to NA, MTS and Other.	
Revenue		Debtor accounts deemed relative to turnover are allocated to NA, MTS and Other using Revenue %		Allocated according to Account, Business Stream and Product information, then NA, MTS and Other using Revenue%.	
Total Operating costs excluding depreciation, Circuits and Rent & Rates		Debtor accounts relative to Opex are allocated using Total operating costs excluding depreciation, Circuits and Rent & Rates% to NA, MTS and Other			
Other	The Regulated Fixed Asset Register is derived from a detailed analysis of the FAR into NA, MTS and Other.	Trade Debtors are analysed by Division. Digital Platforms, Satellite and Telecoms are all classed as direct 100% Other and the Terrestrial Broadcast balance is allocated to NA, MTS and Other using Terrestrial Broadcast Revenue%	Total cash balance removing cash held for other purpose; such as re-financing, debt servicing and investment, attributed to NA, MTS and Other using EBITDA%	The VAT accounts are attributed to NA, MTS and Other on the basis of Trade creditors and Trade Debtors balances adjusted as a proportion of the total purchases and sales as reported in the latest VAT return.	Accounts are analysed and allocated into NA, MTS and Other dependent on the account drivers (example employee related provisions are allocated to NA, MTS and Other using FTE%)

Direct allocation is the primary allocation methodology where possible, the remaining methodologies are secondary and applied on causality basis as appropriate.

A.3 Glossary

ABHL	Arqiva Broadcast Holdings Limited
B&M	Broadcast and Media
BAs	Business Areas
BOPs	Business Operations
CAD	Computer Aided Design
CCs	Cost Centres
COS	Cost of Sales
DSO	Digital Switch Over
FAR	Fixed Asset Register
FP	Fairly Presents
FTE	Full Time Equivalents
HPD TT	High Power Digital Terrestrial Television
LPD TT	Low Power Digital Terrestrial Television
M2M	Machine to Machine
MTS	Managed Transmission Services
NA	Network Access
NGW	National Grid Wireless
OTL	Oracle Time & Labour
P&O	People & Organisation
PP	Properly Prepared
RA	Regulatory Accounts
RAB	Regulated Asset Base
RAPAMs	Regulatory Accounting Principles and Methodologies
RF	Radio Frequency
RFAR	Regulated Fixed Asset Register
SCFS	Statutory Consolidated Financial Statements