

Arqiva Broadcast Holdings Limited

Registered number 05254001

Annual Report and Consolidated Financial Statements

For the year ended 30 June 2012

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Table of Contents

Directors' report and statement of Directors' responsibilities	1
Independent Auditors' report to the Members of Arqiva Broadcast Holdings Limited	9
Consolidated profit and loss account	10
Consolidated balance sheet	11
Statement of group total recognised gains and losses	12
Consolidated cash flow statement	13
Company balance sheet	14
Notes to the financial statements	15
1 Principal accounting policies	15
2 Turnover and segmental reporting	18
3 Operating profit	19
4 Exceptional items	20
5 Staff costs	21
6 Directors' emoluments	21
7 Interest receivable and similar income	22
8 Interest payable and similar charges	22
9 Tax on loss on ordinary activities	23
10 Dividends	24
11 Intangible assets	24
12 Tangible assets	25
13 Investments	26
14 Debtors	27
15 Cash at bank and in hand	28
16 Creditors: amounts falling due within one year	29
17 Creditors: amounts falling due after more than one year	29
18 Provisions for liabilities and charges	31
19 Share capital	32
20 Share premium account	32
21 Profit and loss reserve	32
22 Reconciliation of movement in shareholders' (deficit) / funds	33
23 Cash flow from operating activities	33
24 Analysis of changes in net debt	34
25 Commitments for expenditure	34
26 Contingent liabilities	35
27 Pension commitments	35
28 Related party disclosures	39
29 Post balance sheet events	40
30 Controlling parties	40

Directors' report and statement of Directors' responsibilities

The Directors of Arqiva Broadcast Holdings Limited, registered company number 05254001, ('the Company') and its subsidiaries ('the Group') submit the following annual report and audited consolidated financial statements ('financial statements') in respect of the year ended 30 June 2012.

Business review and principal activities

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

The Group has structured its business into three customer facing business units, supported by an operations division and central corporate functions. The business units within the Group comprise:

- Broadcast and Media ('B&M') is the sole provider of transmission services for all UK terrestrial TV broadcasters, reaching over 20 million homes and covering 98.5% of the population. B&M operates the new networks built for the Digital Switch Over ('DSO'). Transmission is also provided for BBC Radio and most commercial radio stations. The satellite element of the business unit provides global communication platforms to enterprise, government and broadcast customers around the world. It owns and operates teleports at key locations, as well as owning an international terrestrial fibre network and extensive media facilities and leasing satellite capacity. These enable the Group to provide customers with a comprehensive range of services to deliver their data, broadcasts and media across the globe.
- Government, Mobile and Enterprise ('GME') provides cellular, wireless broadband, voice and data solutions for the mobile communications, public safety, local government and commercial markets. Arqiva is the largest independent provider of wireless tower sites in the UK and Ireland. With its own spectrum, the Group can provide complete mobile communications networks including backhaul links.
- Digital Platforms is the Group's multiplex business which owns and operates two of the three main commercial digital terrestrial TV multiplexes, enabling major media companies to bring their TV and radio services to the Freeview platform.
- The Business Operations division provides engineering, delivery, monitoring and maintenance services to the whole of the Group, their focus being on service and efficiency.
- Central corporate functions include Strategy and Business Development, Finance, Legal and Commercial and Human Resources. During the year, the Group has significantly strengthened these areas in order to support the focus on strategic and business development, financial planning, efficiency, procurement and treasury activities.

The Group's radio and TV broadcast operations are regulated by the Office of Communications ('Ofcom') on behalf of the wholesale broadcast customers. The areas of the business impacted by this regulation are B&M and Business Operations.

The Company is a holding company with an investment in a sub group of operating companies.

As a capital intensive infrastructure business that provides radio and TV transmission services as well as site sharing for the mobile operators, Arqiva benefits from having a significant number of long term contracts with its customers. However, two key market changes are having a significant impact on the business. The first is the move from analogue to digital transmission technology. The second is the network consolidation in the mobile sector.

Terrestrial transmission services in the UK are transitioning from analogue and low power digital transmission services to a high power digital transmission service. The Group is successfully delivering a significant and complex engineering project (DSO) to provide Digital Terrestrial Television ('DTT') transmission services nationwide. The programme is currently running within plan parameters, with thirteen of the fifteen regions fully digital as at 30 June 2012. 92% of all sites have now switched over providing digital television coverage to 90% of the total UK population as at 30 June 2012. The switchover events for the remaining 2 regions, Tyne Tees and Northern Ireland, are scheduled in September 2012 and October 2012 respectively.

The construction of this high power digital network has been financed by Arqiva, supported by long term contracts with key broadcasters, including the BBC, that are all over 20 years in length and have significantly boosted the order book of the Group.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

This project has also benefited the Digital Platforms business unit which has had another strong year. The business unit has extended contracts with existing customers and found new customers for the increased number of channels resulting from enhanced compression technology and the roll out of high power digital services, increasing revenue and earnings as a result.

During the year, Arqiva has been working closely with the mobile network operators as they seek to reduce their costs by network consolidation. In 2012, the Group strengthened its position as a key supplier in this market by agreeing revised terms on long term contracts with a number of mobile network operators to ensure it is at the heart of the mobile operators' consolidation plans. Arqiva continues to work with the other mobile operators as they conclude the planning phase of their network consolidation.

The satellite business remains extremely competitive. During 2012, Arqiva has focussed on reducing the cost base of the business by consolidating sites and infrastructure resulting in a more efficient and effective business going forward.

With the TV Digital Switchover project coming to an end and consolidation in the mobile sector moving towards a successful conclusion, Arqiva is now turning its attention to pursuing opportunities that will drive substantial revenue growth in the future. The executive management team has been strengthened to give the company a more customer focussed approach and significant investment has been made in strengthening the Strategy and Product teams.

The Group is now working on a number of substantial opportunities including:

- The national Smart Metering procurement run by the Department of Energy and Climate Change via involvement in the SmartReach consortium which comprises Arqiva, BT, BAE Systems, Detica and Sensus,
- Expansion of the wholesale mobile data offering, supported by the Group's acquisition of Spectrum Interactive Limited. This deal enables Arqiva to accelerate growth in this area by acquiring a well regarded and sizeable independent Wi-Fi portfolio providing a highly scalable platform across the market. This therefore places Arqiva in a strong position to capitalise on the rapidly increasing demand for mobile data services; and
- Growth in Broadcast in such areas as local TV, radio Digital Switchover and usage of the 600 MHZ and 700 MHZ spectrum.

The main elements of the Group's growth strategy are set out under the future developments section below.

In 2012, the Group delivered increased revenues of £831,679,000 (2011: £826,414,000), with a gross profit of £517,046,000 (2011: £486,643,000) and increased operating profit of £123,780,000 (2011: £103,055,000).

Key performance indicators ('KPIs')

The key measure of the Group's financial performance is EBITDA. EBITDA is defined as operating profit, before share of profit from joint ventures and associates, profit or losses on the disposal of fixed assets, depreciation, amortisation, interest and exceptional items but after non-interest finance costs including bank charges. EBITDA for the year ended 30 June 2012 is £401,244,000 (2011: £347,539,000) an increase of 15.5%.

A reconciliation of the reported EBITDA to the financial statements is provided below:

	Year ended 30 June 2012
	£'000
Operating profit before exceptional items	147,448
Depreciation of fixed assets	94,076
Impairment of fixed assets	5,634
Amortisation	155,179
Other (including loss on disposal of fixed assets and non-interest finance costs including bank charges)	(1,093)
EBITDA	401,244

Other significant KPIs for the Group are the level of network availability across both TV and radio infrastructure and project milestones on significant contracts which are monitored regularly. The target combined network availability for the Group is 99.94% and the actual network availability achieved was 99.98% during the year to 30 June 2012. In addition, the Group's own TV multiplexes have a target availability of 99.95% and the actual availability achieved was 99.99% during the year.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Business environment

The Group is the sole owner and operator of the UK's nationwide terrestrial TV infrastructure and the major owner and operator of the UK's radio infrastructure. The Group's activities are key to the technological evolution from analogue to digital based services and critical to all terrestrial TV and Radio broadcasters.

The Group is responsible for delivery of the DSO engineering project. The investment in this project is secured by long-term fixed or RPI linked contracts out as far as 2034 with high quality counterparties such as the BBC and ITV, securing long-term revenues. Terrestrial TV remains the platform of choice in the UK and at completion of the programme it will cover 98.5% of the population.

Arqiva's satellite infrastructure provides excellent levels of connectivity, reliability and security, earning the prestigious title of the World Teleport Association's 'Teleport Operator of the Year 2011'. Arqiva owns, manages and operates teleports and media hubs at key locations, plus comprehensive satellite capacity, multiplexes and an international fibre network.

The Group is the UK's largest independent provider of wireless towers which are critical to mobile network operators' contractual obligations to provide national coverage. Revenue from the Group's tower portfolio is secured by contracts with all of the largest UK mobile operators. The mobile industry is experiencing continued network consolidation amongst the mobile network operators, however significant growth in demand for mobile data is expected to fuel continued investment in mobile infrastructure. Growth in smartphones and mobile enabled devices along with faster download speeds has led to a significant increase in the demand for mobile data services. Planning restrictions create high barriers to entry. The anticipated release of spectrum for use in the mobile market is also expected to drive growth in revenue.

The Group holds spectrum licences for two of the three main commercial digital terrestrial TV multiplexes, selling space for channel programming on the Freeview platform. Since 2004, this has run at close to 100% utilisation with customers including Film4 and UKTV. Channel contracts vary in length but are usually between three and five years duration.

Post balance sheet events

On 2 July 2012, the Group announced that it had agreed terms with the Board of Spectrum Interactive Limited ('Spectrum Interactive'), a leading UK based Wi-Fi operator, for an offer to acquire 100% of the shares for a total cash consideration of £23,439,000. On 30 July 2012, the offer was declared unconditional in all respects.

The acquisition of Spectrum Interactive will enable the Group to build a unique proposition for wholesale Wi-Fi hotspot provision in the UK and gives the business 15,500 access points in over 2,100 premium Wi-Fi locations across hotels, restaurants and leisure outlets as well as airports, airline lounges, motorway service station and public locations on high streets. When combined with the Group's existing Wi-Fi and cellular assets it gives the Group a highly scalable platform for meeting the growing demand for wholesale mobile data services.

Spectrum Interactive will become part of the GME business unit.

Dividends and transfers to reserves

The Company has declared no dividends in the year (2011: £nil). A Group company has declared external dividends of £176,000 (2011: £15,000).

The consolidated loss for the year of £220,162,000 (2011: £250,555,000) was transferred to reserves.

Future developments

It is the intention of the Company and the Group to continue to operate and invest in communications infrastructure.

During the year significant investment has been made in strengthening the Strategy and Product teams with a particular focus on:

- Maximising the value of each of the strong core businesses,
- Investing in the future of DTT by supporting ventures such as YouView,
- Investing in the growth of mobile data (see the acquisition of Spectrum Interactive detailed above),
- Investing in other growth opportunities that leverage the Group's existing assets; and
- Simplifying and standardising to reduce costs and drive efficiencies.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Refinancing

The Group's external financing is provided by a syndicate of lenders under senior and junior loan facilities which were arranged in 2007 and are due for repayment at various dates from July 2014 to July 2015. Further details of the Group's debt facilities are given in note 17 to the financial statements.

The Group's refinancing preparations have now been underway for over a year. Arqiva has engaged financial and legal advisors to assist with the process, with a view to refinancing its existing facilities well in advance of the contractual repayment dates. Arqiva expects to access both bank and bond markets for the refinancing, and has a strong credit profile due to the essential nature of its infrastructure and its track record on earnings growth and delivery of major projects, such as DSO.

The Directors are regularly monitoring the refinancing process, and actively engaging with management and the Group's advisors to ensure timely completion of the refinancing on the best possible terms for the Group.

Principal risks and uncertainties facing the business

The Group has a formal process for monitoring risks and maintains a corporate risk register which is regularly reviewed and reported to senior management and the Directors. The key business risks affecting the Group are set out below together with the Group's mitigating actions; however the Group has long term contracts in place with a number of significant blue chip customers which support the Group's long term financial stability.

- *Completion of the DSO programme by 2013.* The reputational and financial risks are mitigated by regular monitoring of key milestones per site and excellent track record of delivery to date. The project remains on schedule.
- *The level of demand for wireless communications and impact on demand for access to the Group's towers.* Significant amounts of capital expenditure have been invested in developing the wireless communications infrastructure in the UK. The Group's wireless tower portfolio (the largest independent portfolio in the UK) is essential to the UK's mobile network operators, and also provides radio communication services to enterprise and emergency organisations. The demand for mobile data continues to grow and indications are that spectrum capacity, and antenna deployments, will need to increase to cope with this demand. The Group continues to closely monitor the development of wireless technology and network deployment activities by mobile network operators.
- *Network sharing activity amongst the mobile network operators.* The Group's sites are predominantly located in rural and suburban areas. Their location exclusivity and restrictive planning regulations creates significant barriers to mobile network operators reducing their presence on Arqiva's portfolio. Arqiva continues to closely monitor the development of wireless technology and network deployment activities by the mobile network operators. The Group seeks to protect itself by negotiating long term contracts where it makes itself the focal point for consolidation, and facilitates the mobile network operators consolidation in return for protection of its revenue streams.
- *Delivery of DTT Managed Transmission Service contracts with TV broadcasters.* Performance is closely monitored against the service level agreements in place to ensure delivery to the required standard.
- *Developments in alternative broadcast technologies, such as broadband internet connected TV, which competes against the Group's DTT transmission business.* The Group has mitigated some of this risk by investing in YouView TV Limited, a joint venture formed to develop and promote the DTT platform. DTT retains the largest share of broadcast transmission in the UK.
- *International decisions on spectrum allocation.* During the year, Ofcom requested that the Group produce a reference offer for services using the 600 MHz spectrum in the context of its planned auction of this spectrum. However, following the 2012 World Radiocommunication Conference ('WRC') in Geneva, and international decisions on spectrum allocation, Ofcom is now reconsidering what use should be made of the 600MHz spectrum. The Group is actively reviewing the possible impact of the decisions at the WRC and is engaging closely with Ofcom and the broadcasters to ensure that Arqiva and the television industry's needs are properly considered.

Going concern

On a consolidated basis the Group has net liabilities. The Group adopts the going concern basis in preparing its consolidated financial statements based on future profit, cash flows and available facilities, which lead the Directors of the Company to be confident that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group had a net cash inflow from operating activities of £377,608,000 in the year (2011: £299,864,000).

The Company is in a net asset position and has net current assets of £1,675,899,000 (2011: £1,492,675,000).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Creditor payment policy

The Group seeks to treat all of its suppliers fairly and it is the Group's policy to agree the terms of payment at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations. Trade creditor days are 47 days (2011: 51 days).

Financial risk management

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

Price risk

Energy is a major component of the Group's cost base. A large proportion of this is managed via pass-through arrangements to customers. The Group's residual exposure to fluctuations in the electricity price is managed by forward purchasing the majority of power requirements up to 18 months in advance.

Credit risk

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

Liquidity risk

The Group uses medium term committed debt facilities to ensure the Group has sufficient available funds for operations and planned growth. In addition, at 30 June 2012 the Group had £74,300,000 available working capital facilities to cover short term cash flow timing differences if required (2011: £74,300,000). The Group maintains cash reserves and access to undrawn committed facilities to cover forecast requirements. The Group has a balanced policy towards the credit risk on liquid funds and derivative financial instruments with balances currently spread across a range of reputable financial institutions, such counterparties have satisfactory credit ratings assigned by international credit rating agencies. The levels of credit risk are monitored through the Group's ongoing risk management processes, which includes a regular review of the credit ratings. Risk in this area is limited further by setting a maximum level for deposits with any single counterparty.

Cash flow interest risk

The Group has variable rate bank debt and uses interest rate and inflation swaps to hedge its exposure to rising interest rates. The Group maintains a hedging policy to manage interest rate risk and to ensure the certainty of future interest cash flows. It currently has fixed rate hedging, split equally between interest rate swaps and inflation swaps. Interest rate swaps convert variable rate interest costs to fixed rate interest costs while inflation swaps convert variable rate interest costs to RPI-linked costs, which fluctuate in line with the RPI index as do a proportion of the Group's revenue contracts.

Foreign exchange risk

The Group operates from UK sites and predominantly in the UK market, but has some transactions denominated in foreign currency. While some customer and supplier contracts are denominated in other currencies (US Dollars and Euros), the majority of the Group's revenues and costs are sterling based, and accordingly exposure to foreign exchange risk is low. Management regularly monitor the impact of foreign exchange risks and assess the need to put any mitigating financial instruments in place. During the year, forward foreign exchange contracts were used to fix the exchange rate for certain overseas revenue contracts.

Environment

The Group is committed to complying with all applicable environmental legislation and has assessed the environmental impact of its activities products and services and aims to reduce any negative impacts through active environment management. The Group operates an environmental management system which is accredited to the international standards ISO14001 and ISO50001.

Energy consumption is a key area of interest for the Group and Arqiva has launched a new Energy policy which reflects the company's commitments to:

- Improve energy efficiency,
- Reduce energy consumption,
- Invest in energy efficient technology,
- Purchase energy effectively, and
- Monitor carbon emissions.

Part of this new policy is accreditation to ISO50001 'Energy Management System' which is a voluntary International Standard developed by the International Organization for Standardization which aims to establish a framework for an organisation to manage energy effectively.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Health and safety

The Group is committed to complying with applicable health and safety legislation, and to continual improvement in achieving a high standard of health, safety and welfare in its operations and for all those in the organisation and others who may be affected by its activities. The Group operates a safety management system that is accredited to the international standard OHSAS 18001. The Directors regularly review health and safety reports in relation to the Group's activities, employees and contractors.

Employees

The average number of persons employed by the Group during the year was 1,898 (2011: 1,980). The Company itself has no employees (2011: none). Arqiva recognises the significant contribution of its employees and makes every effort to create an energising, rewarding and stimulating environment.

Arqiva has received an Investors in People 'Silver Award'. This is the second highest level of Investors in People recognition available. Achieving the Silver Award is great recognition for the commitment and hard work put in by many colleagues across the business.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training arranged. It is the policy of the Group that the training, career development and promotion of a disabled person, should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group's employee forums provide an effective channel for communication and collective consultation across the company. They play an important role in enabling employees to help the Group manage change effectively. The goals of each forum are to act as the formal staff consultative body for its part of the business within Arqiva, provide a voice to management on employee issues, initiate and support division-wide social activities, and promote consultation and sharing of information. The Group Employee Forum comprises representatives of all the local forums. This forum provides an effective channel for communication and collective consultation on issues that affect the whole Group.

Significant emphasis is placed on employee communication. The Group intranet 'Connect', has been refreshed and makes information available to employees on all matters including company performance, and issues affecting our industry.

Our quarterly employee magazine 'IQ' includes business news, information on special projects, people profiles, environmental and charity initiatives and competitions. The Management Board host quarterly briefings at all key sites and 2012 saw the introduction of a Managers Conference to kick-off the new financial year.

Company Secretary

Michael Giles is the Company Secretary.

Directors

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

- Peter Shore
- Christian Seymour
- Alain Carrier
- Daniel Fetter
- Edward Beckley
- Damian Walsh
- Peter Douglas
- Adrianus Wamsteker (alternate)
- Andreas Kottering (alternate)
- Marc Perusat (alternate)
- Robert Wall (alternate)

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Disclosure of information to the Independent Auditors

The Directors of the Company in office at the date of approval of this report confirm that:

- so far as the Directors are aware there is no relevant audit information of which the Auditors are unaware; and
- each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Walker Report

In November 2007, Sir David Walker published the Guidelines for Disclosure and Transparency in Private Equity ('Walker Report') which recommends enhanced disclosure by portfolio companies of private equity firms. The Company is a portfolio company as defined by the Walker Report and the Directors have given the following additional disclosures within the Directors' report in accordance with the recommendations of the Walker Report.

The Company is owned by a consortium of shareholders including Canada Pension Plan Investment Board, Macquarie European Infrastructure Fund II, other Macquarie managed funds and minorities. There is no ultimate controlling party of the Company, as defined by FRS 8 'Related party disclosures'.

There are two investor companies which are related parties with the Group, in accordance with FRS 8, by virtue of significant shareholding in the Group:

- Frequency Infrastructure Communications Assets Limited, a company controlled by the Canada Pension Plan Investment Board. The Canada Pension Plan Investment Board is a professional investment management organisation based in Toronto which invests the assets of the Canada Pension Plan. The Canada Pension Plan Investment Board was incorporated as a federal Crown corporation by an Act of Parliament in December 1997.
- Macquarie European Infrastructure Fund II, an investment fund managed by the Macquarie Group. Macquarie European Infrastructure Fund II is a wholesale investment fund focusing on investments in high-quality infrastructure businesses across Europe. Macquarie Group Limited is listed in Australia (ASX:MQG ADR:MQBKY).

The senior executives who oversee the Company on behalf of the private equity consortium are as follows:

<i>Frequency Infrastructure Communications Assets Limited:</i>	<i>Macquarie European Infrastructure Fund II:</i>
- Alain Carrier	- Peter Shore
- Daniel Fetter	- Edward Beckley
- Peter Douglas	- Marc Perusat (alternate)
- Andreas Kottering (alternate)	
- Robert Wall (alternate)	

All remaining Directors are appointed by the other shareholders within the consortium.

Directors' indemnities

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

Charitable donations

During the year, the Group made charitable donations of £57,000 (2011: £49,000). All contributions were made as part of a matched funding scheme to match employee fundraising for charitable events up to £500 per employee. The Group also supports the Give As You Earn scheme, working in partnership with the Charities Aid Foundation which manages the Give As You Earn scheme - the UK's leading payroll giving scheme. Additionally, employees are supported to take part in 'Give and Gain Day' whereby they give their time to local charities and organisations for special projects which has included activities such as revamping the garden area at a local school.

Research and development

The Group performs development into new products and technology, the costs of which are generally capitalised in accordance with the Group's accounting policy. The research and development costs expensed in the year total £nil (2011: £nil), with amortisation of £174,000 (2011: £231,000) charged against capitalised development costs.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Freehold land and buildings

The market value of the Group's land and buildings is lower than the carrying amount by £68,567,000 (2011: £82,748,000), this is based upon an external valuation of the property portfolio as at 30 June 2010 uplifted by the percentage increase in the FTSE UK commercial property index to 30 June 2012. The Directors are comfortable that the carrying value of the assets in the financial statements is supported by their value in use to the business.

Overseas branches

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

Statement of Directors' responsibilities

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

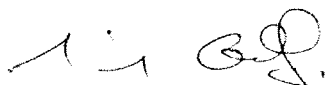
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Michael Giles - Company Secretary

Crawley Court
Crawley
Winchester
Hampshire
SO21 2QA

6 September 2012

Independent Auditors' report to the Members of Arqiva Broadcast Holdings Limited

We have audited the Group and parent company financial statements (the 'financial statements') of Arqiva Broadcast Holdings Limited for the year ended 30 June 2012, which comprise the consolidated profit and loss account, the consolidated balance sheet, the statement of group total recognised gains and losses, the consolidated cash flow statement, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2012 and of the Group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Alan Kinnear (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

6 September 2012

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Consolidated profit and loss account

	Note	Year ended 30 June 2012			Year ended 30 June 2011		
		Pre exceptional items	Exceptional items	Total	Pre exceptional items	Exceptional items	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover (including share of joint venture):							
Continuing operations		843,837	-	843,837	830,748	-	830,748
Discontinued operations		-	-	-	709	-	709
Total turnover (including share of joint venture)		843,837	-	843,837	831,457	-	831,457
Less: share of joint venture turnover		(12,158)	-	(12,158)	(5,043)	-	(5,043)
Group turnover	2	831,679	-	831,679	826,414	-	826,414
Cost of sales		(314,633)	-	(314,633)	(339,771)	-	(339,771)
Gross profit		517,046	-	517,046	486,643	-	486,643
Administrative expenses		(369,598)	(23,668)	(393,266)	(383,588)	-	(383,588)
Operating profit / (loss)							
Continuing operations		147,448	(23,668)	123,780	112,829	-	112,829
Discontinued operations		-	-	-	(9,774)	-	(9,774)
Group operating profit	3	147,448	(23,668)	123,780	103,055	-	103,055
Share of operating profit / (loss) in joint venture and associates		3,947	-	3,947	(333)	-	(333)
Total operating profit: Group and share of joint venture and associates		151,395	(23,668)	127,727	102,722	-	102,722
Income from investments		60	-	60	72	-	72
Fundamental reorganisation		-	-	-	-	(8,801)	(8,801)
Loss on disposal of assets		-	-	-	-	(2,136)	(2,136)
Total non-operating profit exceptional items		-	-	-	-	(10,937)	(10,937)
Profit on ordinary activities before taxation and interest		151,455	(23,668)	127,787	102,794	(10,937)	91,857
Interest receivable and similar income	7	2,273	-	2,273	680	-	680
Interest payable and similar charges	8	(365,584)	-	(365,584)	(367,846)	-	(367,846)
Share of joint venture interest payable		(2,264)	-	(2,264)	-	-	-
Other financing activities		-	1,203	1,203	-	15,637	15,637
Loss on ordinary activities before taxation		(214,120)	(22,465)	(236,585)	(264,372)	4,700	(259,672)
Tax on loss on ordinary activities	9			16,543			9,244
Loss on ordinary activities after taxation				(220,042)			(250,428)
Equity minority interests				(120)			(127)
Loss for the financial year	21			(220,162)			(250,555)

There are no material differences between losses on ordinary activities for the year above and the comparative year and their historical cost equivalents.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Consolidated balance sheet

	Note	30 June 2012 £'000	30 June 2011 £'000
Fixed assets			
Intangible assets	11	2,148,939	2,304,118
Tangible assets	12	1,628,704	1,565,516
Investments	13		
<i>Investments in joint venture</i>			
- Share of gross assets		15,626	20,224
- Share of gross liabilities		(15,204)	(21,606)
- Goodwill on acquisition		10,523	5,849
<i>Investments in associated undertakings</i>			
		110	110
		11,055	4,577
		3,788,698	3,874,211
Current assets			
Debtors	14	211,734	188,821
Cash at bank and in hand	15	329,652	52,744
Total current assets		541,386	241,565
Creditors: amounts falling due within one year	16	(491,798)	(605,773)
Net current assets / (liabilities)		49,588	(364,208)
Total assets less current liabilities		3,838,286	3,510,003
Creditors: amounts falling due after more than one year	17	(4,320,873)	(3,769,898)
Provisions for liabilities and charges	18	(60,511)	(57,444)
Net liabilities excluding pension (deficit) / asset		(543,098)	(317,339)
Pension (deficit) / asset	27	(2,280)	2,664
Net liabilities including pension (deficit) / asset		(545,378)	(314,675)
Capital and reserves			
Called up share capital	19	653,928	653,928
Share premium account	20	315,638	315,638
Profit and loss reserve	21	(1,515,220)	(1,284,573)
Total shareholders' deficit	22	(545,654)	(315,007)
Minority interest		276	332
Capital employed		(545,378)	(314,675)

The accounting policies and notes on pages 15 to 40 form part of these financial statements.

These financial statements were approved by the Board of Directors on 6 September 2012 and were signed on its behalf by:



Peter Shore – Director

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Statement of group total recognised gains and losses

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
(Loss) / profit for the financial year		
- Group	(221,845)	(250,222)
- Joint Ventures	1,683	(333)
Loss for the financial year	(220,162)	(250,555)
Actuarial (loss) / gain on pension scheme	(13,800)	12,500
Movement on deferred tax relating to pension scheme	3,312	(3,250)
Exchange adjustment offset in reserves (translation of foreign investments)	3	(352)
Total recognised losses for the year	(230,647)	(241,657)
Total recognised losses for the year		
- Group	(232,330)	(241,324)
- Joint Ventures	1,683	(333)
Total recognised losses for the year	(230,647)	(241,657)

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Consolidated cash flow statement

	Note	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Net cash inflow from operating activities	23	377,608	299,864
Returns on investment and servicing of finance			
Interest received		1,073	658
Interest paid		(161,291)	(162,903)
Interest element of finance lease rentals		(1,183)	(1,216)
Dividends from investments		60	198
Dividends paid to minority interests		(176)	(85)
		(161,517)	(163,348)
Tax paid		(242)	(1,392)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(161,985)	(176,936)
Purchase of financial instrument		-	(3,000)
Sale of tangible fixed assets		457	3,031
		(161,528)	(176,905)
Acquisitions and disposals			
Purchase of subsidiary undertakings (payment of deferred consideration)		(2,083)	(2,082)
		(2,083)	(2,082)
Financing			
Finance lease capital		(423)	(386)
Loans to associates and joint ventures		-	(288)
Repayment of external borrowings		(7,638)	(170,795)
Increase in external borrowings		232,731	173,310
		224,670	1,841
Increase / (decrease) in cash	24	276,908	(42,022)
Reconciliation of net cash flow to movement in net debt			
Net debt at 1 July		(3,621,267)	(3,499,465)
Increase / (decrease) in net cash		276,908	(42,022)
Movement in financing		(224,670)	(1,841)
Other non-cash changes		(293,358)	(77,939)
Net debt at 30 June	24	(3,862,387)	(3,621,267)

Arqiva Broadcast Holdings Limited

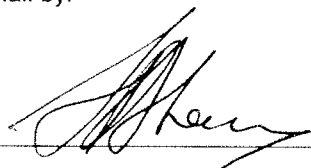
Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Company balance sheet

	Note	30 June 2012	30 June 2011
		£'000	£'000
Fixed assets			
Investments	13	1,000	1,000
Current assets			
Debtors (including £174,617,000 (2011: £406,238,000) due after more than one year)	14	1,425,370	1,495,251
Cash at bank and in hand	15	250,529	18,370
Total current assets		1,675,899	1,513,621
Creditors: amounts falling due within one year	16	-	(20,946)
Net current assets		1,675,899	1,492,675
Total assets less current liabilities		1,676,899	1,493,675
Capital and reserves			
Called up share capital	19	653,928	653,928
Share premium account	20	315,638	315,638
Profit and loss reserve	21	707,333	524,109
Total shareholders' funds	22	1,676,899	1,493,675

The accounting policies and notes on pages 15 to 40 form part of these financial statements.

These financial statements were approved by the Board of Directors on 6 September 2012 and were signed on its behalf by:



Peter Shore - Director

Notes to the financial statements

1 Principal accounting policies

The following accounting policies have been applied consistently in relation to the Group's and Company's financial statements:

(a) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable UK accounting standards under the historical cost convention. The Company is exempt under s408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The Company made a profit for the year of £183,224,000 (2011: £149,045,000) prior to dividends paid of £nil (2011: £nil).

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company, as at 30 June 2012, and the results of all controlled entities for the year then ended.

Businesses acquired, previously held externally to the Group, are accounted for as acquisitions with effect from the date control passes. Those disposed of are accounted for up until the date of disposal. Intra group profits have been eliminated. Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. Associates are accounted for using the equity method of accounting in accordance with FRS 9 'Associates and joint ventures'. Joint ventures are accounted for using the gross equity method. The consolidated financial statements include the appropriate share of those undertakings' results and reserves.

(c) Going concern

The Group adopts the going concern basis in preparing its consolidated financial statements based on future profit, cash flows and available facilities, which lead the Directors of the Company to be confident that the Group will have adequate resources to continue in operational existence for the foreseeable future. During the year, the Group had a net cash inflow from operating activities of £377,608,000.

The Company is in a net asset position and has net current assets.

(d) Tangible fixed assets and depreciation

Tangible fixed assets are stated at original purchase cost (which includes costs directly attributable to bringing the assets into working condition), being fair value for acquired subsidiaries, less accumulated depreciation and any provision for impairment.

In accordance with FRS 15 'Tangible fixed assets', directly attributable finance costs are capitalised where assets take a significant period of time to become ready for use.

Depreciation is provided on a straight line basis at rates calculated to write off the cost or valued amount, less estimated residual value, of assets over their estimated useful lives. The useful economic lives of the assets have been determined taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected depreciation rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances.

Asset Description	Estimated Useful Life
Freehold buildings	60 – 70 years
Leasehold buildings	Length of lease
Plant and equipment	
- Communications infrastructure network	8 – 100 years
- Network computer equipment	3 – 20 years
- Motor vehicles	3 – 5 years

Freehold land is not depreciated.

Capital work in progress is not depreciated until construction is complete and the asset is capable of operating in the manner intended by the Group in accordance with FRS 15.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

(e) Turnover

The Group's accounting policy in respect of turnover is set out in note 2.

(f) Intangible fixed assets and amortisation

Intangible fixed assets are stated at original purchase cost, being fair value for acquired subsidiaries, less accumulated amortisation and any provision for impairment. The economic useful lives of intangible fixed assets are reviewed on an annual basis and revised if required, and consideration is made of whether there has been any indicator of impairment.

Development costs

Development costs incurred to produce new, or substantially improved, products and services within the Group are capitalised in accordance with SSAP 13 'Accounting for research and development' and are amortised from the commencement of service over the life of the relevant contract. Research costs, experimental or theoretical work undertaken which does not constitute development, are expensed as incurred.

Licences

Licences acquired to operate radio services are capitalised and amortised on a straight line basis over their licence period.

Goodwill

Purchased goodwill is capitalised and amortised on a straight line basis over its estimated useful life, which is considered to be no longer than 20 years. The Group capitalises costs associated with the acquisition of subsidiaries within goodwill.

Access rights

Access rights are stated at original purchase cost and amortised on a straight line basis over their expected useful life.

(g) Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment in value, in accordance with FRS 11 'Impairment of fixed assets and goodwill'.

(h) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to the profit and loss account. Exchange differences on translation of overseas operations are recognised through the 'Statement of group total recognised gains and losses'.

(i) Leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and depreciated over their useful economic lives or the lease term, if shorter.

The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

Operating lease payments for assets leased from third parties are charged to the profit and loss account on a straight line basis over the period of the lease.

Equipment leased to customers under finance leases is deemed to be sold at normal selling price and this value is taken to turnover at the inception of the lease. Debtors under finance leases represent outstanding amounts due under these agreements, less finance charges allocated to future periods. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments.

(j) Taxation and deferred taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided fully in respect of all timing differences using the liability method for timing differences where there is an obligation to pay more tax, or a right to pay less tax, in the future. The provision is calculated using the rates expected to be applicable when the asset or liability crystallises based on current tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

A deferred tax asset is regarded as recoverable and therefore recognised only when it is more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of timing differences can be deducted. Deferred tax is not recognised on revalued fixed assets until a binding agreement is in place to sell such assets and the resulting gain or loss has been recognised in the financial statements. Deferred tax is measured on an undiscounted basis.

(k) Provisions

The provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Decommissioning provisions are recognised within provisions for liabilities and charges and included within fixed assets, where the costs of dismantling assets are considered material. The amounts recognised within fixed assets are depreciated over the useful economic life of the asset. The provisions are discounted to reflect the time value of money where material.

(l) Borrowings

Borrowings are stated at their issue proceeds, net of issue costs, less amounts repaid. Issue costs are amortised over the term of the borrowing to achieve a constant rate on the carrying amount. Interest on the borrowings is recognised as an expense as it accrues over the period of the loan, unless capitalised as noted in policy (d).

(m) Post retirement benefits

Defined contribution schemes

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Defined benefit schemes

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and terms to the scheme liabilities.

Any defined benefit asset or liability is presented separately on the face of the balance sheet and net of deferred tax.

(n) Cash at bank and in hand

Cash at bank and overnight deposits are disclosed within cash at bank.

(o) Interest

Interest income and expense are accounted for on an accruals basis and comprise amounts receivable on deposits and payable on borrowings and finance leases.

(p) Derivative financial instruments

The Group uses interest rate and inflation swaps to reduce its exposure to fluctuations in variable interest rates on its debt. Receipts, payments and accreting liabilities on interest rate and inflation swaps are recognised on an accruals basis, over the life of the instrument. Changes in the fair value of such derivatives are not recognised. Amounts received and paid under interest rate and inflation swaps are shown net under financing costs, where they are part of the same legal agreement and settled net in practice. The Group also utilises forward purchase contracts for foreign currency transactions, the changes in the fair value of such derivatives are not recognised, and the gain or loss on settlement is taken to the profit and loss account.

(q) Share issue costs

In accordance with the provision contained in FRS 4 'Capital instruments', all issue costs (as defined within the meaning of FRS 4) are accounted for as a deduction in the proceeds of the relevant capital instruments.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

2 Turnover and segmental reporting

Turnover, which is stated net of value added tax, includes the value of charges made for transmission services, distribution services, products, facilities leasing, research and development contracts, external network services to national and international telecommunication operators, other contracts, rents from properties and charges made under site sharing agreements.

Turnover is recognised as services are provided. Cash received or invoices raised in advance is taken to deferred income and recognised as turnover when service is provided. Where consideration received in advance is discounted, the effect of the time value of money, where material, is reflected within turnover and interest payable and similar charges. Turnover recognised in advance of cash received or invoices raised is taken to accrued income.

The geographical split of turnover by destination is shown below:

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
UK	724,809	698,810
Continental Europe	64,335	78,636
Rest of world	42,535	48,968
Group turnover	831,679	826,414

Segmental reporting

The Group has organised its business into three customer facing business units, supported by an operations division and central corporate functions. This structure is used to provide the following segmental reporting in relation to Group turnover.

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Broadcast and Media	464,400	474,313
Digital Platforms	121,636	109,525
Government, Mobile and Enterprise	245,643	241,867
Discontinued operations *	-	709
Group turnover	831,679	826,414

The majority of assets employed and underlying costs are derived from a shared infrastructure network common to all operating business units. An allocation of such assets or costs to the business units is not performed as part of the normal reporting process within the business. In the absence of a suitable allocation methodology and given the size of the shared assets and costs, the Directors are of the opinion that additional segmental reporting would not provide meaningful information to the users of the financial statements.

* In June 2011, the Group sold the trade and assets of its video on demand service 'SeeSaw'. SeeSaw had provided an advertising video-on-demand service and a transactional video-on-demand service. Net assets sold as part of this transaction were £3,150,000.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

3 Operating profit

Operating profit is stated after charging / (crediting):

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Depreciation of owned fixed assets	93,629	88,622
Impairment of owned fixed assets	5,634	-
Depreciation of assets held under finance lease	447	586
Amortisation of goodwill in respect of subsidiaries	153,154	153,154
Amortisation of intangible assets	2,025	2,249
Impairment of financial instrument	-	3,000
Operating lease rentals:		
- Land, buildings and other infrastructure	42,345	44,165
- Plant and machinery	1,613	1,228
Loss on disposal of tangible fixed assets	257	-
Foreign exchange losses	1,236	1,301
Grant income	(274)	(29)

Services provided by the Group's Auditors and network firms

During the year the Group obtained the following services from the Group's Auditors at costs as detailed below:

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Fees payable to Company Auditors for the audit of parent company and consolidated financial statements	61	56
Fees payable for the audit of the Company's subsidiaries	389	344
Non-audit services		
Other assurance services	195	210
Services relating to taxation	112	74
Services relating to corporate finance	210	399
All other services	220	209
Total cost of services provided by the Group's Auditors	1,187	1,292

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

4 Exceptional items

Loss on ordinary activities before taxation is stated after (charging) / crediting:

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Administrative expenses		
- Reorganisation and severance	(10,804)	-
- Corporate finance activities (including refinancing)	(5,433)	-
- Other one off activities	(7,431)	-
	(23,668)	-
Non-operating profit exceptional items		
- Fundamental reorganisation	-	(8,801)
- Loss on disposal of assets	-	(2,136)
	-	(10,937)
Financing activities		
- Non-cash gain on the early settlement of a financial liability	1,203	15,637
Total exceptional items	(22,465)	4,700

Reorganisation and severance costs in the year ended 30 June 2012 primarily represent amounts provided in relation to the closure of the Group's Warwick offices and some other business efficiency and process changes.

Other one off activities includes substantial costs relating to a contract bid, the write off of amounts relating to a business disposal in the prior year and other business change projects.

The above amounts are deductible / chargeable for the purpose of taxation with the exception of the loss on disposal of assets. The aggregate tax impact of these items was a tax deduction of £5,729,000 (2011: a tax charge of £1,880,000).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

5 Staff costs

The Company had no employees during the year (2011: none). The average number of persons employed by the Group during the year was as follows:

	Group Year ended 30 June 2012	Group Year ended 30 June 2011 *
	Number	Number
Broadcast and Media	245	262
Digital Platforms	18	10
Government, Mobile and Enterprise	162	162
Business Operations	1,160	1,228
Corporate Support	313	318
Total staff numbers	1,898	1,980

* The prior year figures have been reclassified to align with the current year disclosure by business unit.

The aggregate payroll costs of these persons were as follows:

	Group Year ended 30 June 2012	Group Year ended 30 June 2011
	£'000	£'000
Wages and salaries	117,832	116,720
Social security costs	12,325	11,517
Other pension costs	9,556	9,743
Total staff costs	139,713	137,980

6 Directors' emoluments

During the year, two Directors (2011: one) were employees of Arqiva Limited (a subsidiary company).

One of the Directors (2011: one) was a representative of the Company's shareholders and their individual remuneration reflects the services they provide to the Company, its subsidiaries and certain other entities outside of the Group. It is however possible to make an accurate apportionment of the Director's emoluments in respect of their service to the Group. Accordingly, this is taken into account in providing the following disclosure:

	Group Year ended 30 June 2012	Group Year ended 30 June 2011
	£'000	£'000
Aggregate emoluments	192	44

All other Directors were representatives of the Company's shareholders and their individual remuneration reflects the services they provide to the Company, its subsidiaries and a number of other entities outside of the Group. It is therefore not possible to make an accurate apportionment of each Director's emoluments in respect of each of their service to the Company and the Group. Accordingly, the details set out in the table above include no emoluments in respect of these Directors services.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

7 Interest receivable and similar income

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Bank interest	737	385
Finance lease interest receivable	317	203
Other interest	1,219	92
Total interest receivable	2,273	680

8 Interest payable and similar charges

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
Bank loan interest	215,506	235,156
Less: Capitalised interest	(1,936)	(3,458)
Net bank loan interest	213,570	231,698
Amortisation of debt issue costs	16,584	16,916
Finance lease interest	1,183	1,216
Shareholder loan note interest	120,394	106,009
Other interest	13,853	12,007
Total interest payable	365,584	367,846

Included within bank loan interest is the increase in the accrued liabilities on the Group's inflation swaps of £54,036,000 (2011: £76,823,000) (see note 17). Excluding this amount the net bank loan interest was £159,534,000 (2011: £154,875,000).

The shareholder loan notes carry a fixed interest rate of 13%, which can be deferred at the option of the Group.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

9 Tax on loss on ordinary activities

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000
(a) Analysis of tax credit for the year		
Current tax		
UK corporation tax	208	-
Overseas tax	399	636
Total current tax	607	636
Deferred tax		
Origination and reversal of timing differences	(14,643)	(6,330)
Deferred tax on pension liability charged to profit and loss account	1,728	884
Impact of rate change	90	(412)
Prior year adjustment	(4,325)	(4,022)
Total deferred tax	(17,150)	(9,880)
Tax on loss on ordinary activities	(16,543)	(9,244)
(b) Factors affecting the current tax charge for the year:		
The tax charge assessed for the year is different to the standard rate of tax in the UK of 25.5% (2011: 27.5%). The differences are explained below:		
Loss on ordinary activities before taxation	(236,585)	(259,672)
Loss before taxation multiplied by standard rate of corporation tax in the United Kingdom of 25.5% (2011: 27.5%)	(60,329)	(71,410)
Expenses not deductible for tax purposes	1,032	1,276
Amortisation of goodwill	39,054	42,117
Depreciation in excess of capital allowances	18,803	8,071
Non qualifying depreciation	6,509	3,361
Non-deductible loan note interest	4,561	19,935
Prior period interest now deductible	(16,603)	-
Associate / joint venture revenue / expense with no tax applicable	(429)	92
Income not subject to corporation tax	(2,050)	(1,066)
Generation / (utilisation) of unrecognised tax losses	13,230	(74)
Utilisation of recognised tax losses	(1,020)	(1,375)
Other timing differences	(2,217)	(963)
Loss on disposal of fixed assets	66	553
Overseas tax rate in excess of the UK tax rate	-	119
Total current tax	607	636

The UK corporation tax rate was reduced from 26% to 24% effective from 1 April 2012. Therefore for the purpose of this tax reconciliation an average tax rate of 25.5% has been used.

There has been a stated intention to reduce the UK corporation tax rate in future years (see note 14).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

10 Dividends

Dividends payable to minority interests	Group	Group
	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Now Digital (East Midlands) Limited		
Interim dividend declared 22 February 2012 of £30.00 per share (2011: none)	143	-
South West Digital Radio Limited		
Interim dividend declared on 27 February 2012 of £10.00 per share (2011 of £4.50 per share)	33	15
Total dividends payable to minority interests	176	15

The above amounts represent dividends paid to minority interest shareholders.

11 Intangible assets

Group	Licences	Development costs	Access rights	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2011 and 30 June 2012	3,638	925	15,420	3,048,111	3,068,094
Accumulated amortisation					
At 1 July 2011	1,745	751	12,845	748,635	763,976
Charged in the year	352	174	1,499	153,154	155,179
At 30 June 2012	2,097	925	14,344	901,789	919,155
Net book value					
At 30 June 2012	1,541	-	1,076	2,146,322	2,148,939
At 30 June 2011	1,893	174	2,575	2,299,476	2,304,118

Development costs in respect of products and services that are being developed by the Group are being capitalised in accordance with SSAP 13. These are amortised over their expected useful life once the product or service has been commercially launched.

The Company has no intangible assets (2011: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

12 Tangible assets

Group	Freehold land and buildings	Leasehold buildings	Plant and equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 July 2011	400,421	55,389	1,427,179	1,882,989
Additions	10,210	654	152,748	163,612
Disposals	(146)	-	(19,742)	(19,888)
At 30 June 2012	410,485	56,043	1,560,185	2,026,713
Accumulated depreciation				
At 1 July 2011	13,286	4,622	299,565	317,473
Charge for the year	4,069	1,505	88,502	94,076
Impairment	5,634	-	-	5,634
Disposals	(146)	-	(19,028)	(19,174)
At 30 June 2012	22,843	6,127	369,039	398,009
Net book value				
At 30 June 2012	387,642	49,916	1,191,146	1,628,704
At 30 June 2011	387,135	50,767	1,127,614	1,565,516

The Group's fixed and other assets have been pledged as security under fixed and floating charges provided under the terms of borrowing agreements entered into by the Group (see note 26).

Included above is £159,497,000 (2011: £320,003,000) of capital work in progress. This includes additions of £156,184,000 and the completion of capital work in progress during the year of £316,690,000.

Borrowing costs relating to the DSO project were capitalised during the year totalling £1,936,000 (2011: £3,458,000) at a capitalisation rate of 2.7% (2011: 2.6%). The aggregate amount of finance costs included in the cost of tangible fixed assets totals £20,298,000 (2011: £18,362,000).

Freehold land included above but not depreciated amounts to £84,219,000 (2011: £83,811,000)

Assets held under finance leases, capitalised and included within fixed assets are shown in the table below:

	Land and buildings
	£'000
Cost	10,907
Accumulated depreciation	(2,904)
Net book value	
At 30 June 2012	8,003
At 30 June 2011	8,450

The Company has no tangible fixed assets (2011: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

13 Investments

The Company's significant investments (held indirectly unless stated) are shown below:

Company	Country of incorporation	Principal activities	Year end	Percentage of ordinary shares held
Arqiva Financing No. 3 Plc - held directly	United Kingdom	Holding company	30-June	99.99%
Arqiva Financing No. 2 Limited	United Kingdom	Holding company	30-June	100%
Arqiva Financing No. 1 Limited	United Kingdom	Holding company	30-June	100%
Arqiva UK Broadcast Holdings Limited	United Kingdom	Holding company	30-June	100%
MUKBL Digital Limited	United Kingdom	Holding company	30-June	100%
MUKBL Digital Radio Limited	United Kingdom	Holding company	30-June	100%
Arqiva Limited	United Kingdom	Transmission services	30-June	100%
Arqiva Inc	USA	Satellite transmission services	30-June	100%
Arqiva SRL	Italy	Satellite transmission services	30-June	100%
Arqiva SAS	France	Satellite transmission services	30-June	100%
Macropolitan Limited	United Kingdom	Site management	30-June	100%
Arqiva Telecoms Investment Limited	United Kingdom	Holding company	30-June	100%
Arqiva Holdings Limited	United Kingdom	Holding company	30-June	100%
Arqiva Services Limited	United Kingdom	Transmission services	30-June	100%
Arqiva No 2 Limited	United Kingdom	Transmission services	30-June	100%
Arqiva No 3 Limited	United Kingdom	Transmission services	30-June	100%
Arqiva Aerial Sites Plc	United Kingdom	Management of aerial sites	30-June	100%
Digital One Limited	United Kingdom	Transmission services	30-June	100%
Now Digital Limited	United Kingdom	Transmission services	30-June	100%
Now Digital (Southern) Limited	United Kingdom	Transmission services	30-June	100%
Now Digital (East Midlands) Limited	United Kingdom	Transmission services	30-June	52.5%
South West Digital Radio Limited	United Kingdom	Transmission services	30-June	66.67%
Primrose No.1 Limited – held directly	United Kingdom	Investment company	30-June	100%
Arqiva Swing Limited – held directly	United Kingdom	Video-on-demand services	30-June	100%
Arqiva (Scotland) Limited	United Kingdom	Transmission services	30-June	100%
JFMG Limited	United Kingdom	Spectrum and transmission management	30-June	100%
Lattice Telecommunications Asset Development Company Limited	United Kingdom	Telecommunications infrastructure	30-June	100%
Company	Country of incorporation	Principal activities	Year end	Percentage of ordinary shares held
Joint ventures				
Arts Alliance Media Investment Limited	British Virgin Islands	Digital cinema distribution	30-June	24.99%
YouView TV Limited	United Kingdom	Open source IPTV development	31-March	14.3%
Associate undertakings:				
Muxco Limited	United Kingdom	Bidding for UK DAB digital radio multiplex licences	31-Dec	25%
DTV Services Limited	United Kingdom	Freeview market services co-ordination	31-May	20%

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Group	Investments in associates and joint ventures £'000	Investment in financial instruments £'000	Total £'000
Investments			
At 1 July 2011	4,577	3,000	7,577
Additions (see note 28)	4,795	-	4,795
Share of retained profit	1,683	-	1,683
At 30 June 2012	11,055	3,000	14,055
Provision for impairment			
At 1 July 2011 and 30 June 2012	-	(3,000)	(3,000)
Net book value			
At 30 June 2012	11,055	-	11,055
At 30 June 2011	4,577	-	4,577

Company	Investments in subsidiaries £'000	Investment in financial instruments £'000	Total £'000
Cost			
At 1 July 2011 and 30 June 2012	1,000	3,000	4,000
Provision for impairment			
At 1 July 2011 and 30 June 2012	-	(3,000)	(3,000)
Net book value			
At 30 June 2012	1,000	-	1,000
At 30 June 2011	1,000	-	1,000

The Directors believe that the carrying values of the investments are supported by the underlying net assets.

14 Debtors

	Group 30 June 2012 £'000	Group 30 June 2011 £'000	Company 30 June 2012 £'000	Company 30 June 2011 £'000
Trade debtors	84,802	89,545	-	-
Amounts owed by Group undertakings	-	-	1,425,360	1,495,251
Amounts owed by joint ventures (note 28)	-	4,808	-	-
Other debtors	10,100	13,358	10	-
Prepayments and accrued income	100,246	81,110	-	-
Deferred tax asset	16,586	-	-	-
Total debtors	211,734	188,821	1,425,370	1,495,251

The Directors consider that the fair value of debtors closely approximates to book value.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Deferred tax asset / (liability)	Group	Group
	30 June 2012	30 June 2011
	Asset	Liability
	£'000	£'000
At 1 July	(2,221)	(13,148)
Credited to the profit and loss account	18,807	10,927
At 30 June	16,586	(2,221)
Accelerated capital allowances	8,121	(11,846)
Short term timing differences	676	438
Tax losses	7,789	9,187
Deferred tax asset / (liability)	16,586	(2,221)

The deferred tax asset of £16,586,000 has been calculated based on the UK corporation tax rate of 24% (the rate in force at the balance sheet date). There has also been a stated intention to reduce the UK corporation tax rate to 22% by April 2014 by a number of changes in the UK corporation tax rate; these changes have not been substantively enacted.

There is an unrecognised deferred tax asset of £32,298,000 (2011: £17,212,000) in respect of tax losses which are not anticipated to be utilised in the foreseeable future. This unrecognised deferred tax asset is anticipated to be utilised when there is taxable income in the relevant Group entities to utilise the losses previously generated.

Finance leases

Included within 'other debtors' are the following amounts receivable under finance leases:

	Group	Group
	30 June 2012	30 June 2011
	£'000	£'000
Net investment in finance leases and hire purchase contracts comprises:		
Total amounts receivable	5,619	6,042
Less: Interest allocated to future years	(2,324)	(2,641)
Total finance leases	3,295	3,401

Rentals receivable during the year under finance leases and hire purchase contracts amount to £423,000 (2011: £422,000).

Company

Amounts owed by Group undertakings are unsecured. Interest has been charged on £1,038,990,000 at 9.75%, £384,510,000 at 18% and £1,860,000 at 0% (2011: £928,052,000 at 9.75%, £525,575,000 at 18% and £41,624,000 at 0%). Of the above balances £174,617,000 at 9.75% is in respect of amounts due in greater than one year (2011: £406,238,000 at 9.75%).

Under the terms of the inter-company agreements the Company is only entitled to demand repayment of the loans to the extent surplus cash is available to do so and if this would not cause any of the Group undertakings to become insolvent.

15 Cash at bank and in hand

	Group	Group	Company	Company
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	£'000	£'000	£'000	£'000
Cash at bank	5,448	12,705	64	101
Short term deposits	324,204	40,039	250,465	18,269
Total cash	329,652	52,744	250,529	18,370

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

16 Creditors: amounts falling due within one year

	Group 30 June 2012 £'000	Group 30 June 2011 £'000	Company 30 June 2012 £'000	Company 30 June 2011 £'000
Trade creditors	65,430	78,712	-	-
Amounts owed to Group undertakings	-	-	-	20,946
Other taxes and social security costs	12,124	15,675	-	-
Other creditors	16,290	15,396	-	-
Accruals and deferred income	397,479	495,567	-	-
Finance lease obligations	475	423	-	-
Total creditors: amounts falling due within one year	491,798	605,773	-	20,946

The Directors consider that the fair value of creditors: amounts falling due within one year closely approximates to book value.

Included within accruals and deferred income is £142,822,000 (2011: £241,560,000) in relation to accrued interest on shareholder loan notes.

Company

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

17 Creditors: amounts falling due after more than one year

	Group 30 June 2012 £'000	Group 30 June 2011 £'000
Bank loans		
Senior debt - A1	1,509,788	1,509,788
Senior debt - A2	581,837	581,837
Senior debt - Facility C	657,206	424,475
Junior debt	315,689	324,618
Accrued liability on inflation rate swap	255,208	201,172
Less: unamortised issue costs	(16,647)	(33,319)
	3,303,081	3,008,571
Other loans		
Shareholder loan notes	873,983	654,850
Other creditors	1,658	-
Finance lease obligations	14,500	14,975
Accruals and deferred income	127,651	91,502
Total creditors: amounts falling due after more than one year	4,320,873	3,769,898

All shareholder loan notes carry a fixed interest rate of 13%, which can be deferred at the option of the Group, applicable to the capital and unpaid interest. The Group has exercised this option with effect from June 2009. They are repayable on 31 December 2017 and cannot be called upon early. The Shareholder loan notes are unsecured and are listed on the Channel Islands Stock Exchange.

The Company has no creditors: amounts falling due after more than one year (2011: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

	Group 30 June 2012 £'000	Group 30 June 2011 £'000
Maturity of loans		
Within one year	475	423
In more than one year, but not more than five years	3,321,255	3,043,475
In more than five years	886,956	668,240
Total loans	4,208,686	3,712,138

Finance leases

Future minimum payments under finance leases are as follows:

	Group 30 June 2012 £'000	Group 30 June 2011 £'000
Within one year	1,606	1,606
In more than one year, but not more than five years	5,665	5,863
After five years	20,702	22,110
Total gross payments	27,973	29,579
Less finance charges included above	(12,998)	(14,181)
Total finance leases	14,975	15,398

All senior debt represents amounts borrowed by Arqiva Financing No 1 Limited ('AF1') under a Senior Facility Agreement, dated 3 April 2007, with a total facility of £2,925,000,000. The working capital facility of £75,000,000 is a component of this senior debt facility. The loans have floating interest rates which range between LIBOR + 2.00% to LIBOR + 2.75%.

All junior debt represents amounts borrowed by Arqiva Financing No 2 Limited ('AF2') under a Junior Facility Agreement, dated 3 April 2007, with a total facility of £475,000,000. The loans have floating interest rates which range between LIBOR + 4.50% to LIBOR + 5.00%.

The senior and junior debt have certain covenants attached, principally an interest cover ratio and a debt leverage ratio, and are secured by way of a fixed and floating charge over the Group's assets. The Group continues to comply with all covenant requirements. The loans are repayable as shown below:

	Repayable on
Senior debt - A1	1 July 2014
Senior debt - A2	1 December 2014
Senior debt - Facility C	1 July 2014
Junior debt	1 July 2015

AF1 has entered into interest rate swaps and inflation swap agreements covering a total principal value of £2,625,000,000 in order to hedge its exposure to variable interest rates. £1,312,500,000 has been hedged via interest rate swaps at a fixed rate of 5.239% and £1,312,500,000 has been hedged via inflation linked swaps which fix interest at 2.02% indexed with RPI. The swaps have a mandatory break clause at the earlier of any refinancing of the Group's senior facilities or April 2014.

In addition, AF1 has entered into basis swaps with a principal value of £2,625,000,000, to swap the interest fixing period from semi-annual to monthly. Loan interest periods are matched to this frequency. The swaps are in place until September 2012.

An amount of £255,208,000 (2011: £201,172,000) reflecting accrued liabilities under the inflation swaps is included within creditors. This amount is calculated on an accruals basis. The remaining fair value of the interest rate and inflation swaps at 30 June 2012 (excluding the inflation swap accrual), a liability of £1,044,703,000 (2011: £557,797,000), is not recognised on the balance sheet in accordance with Group accounting policy. This fair value is calculated on a mark to market basis.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

18 Provisions for liabilities and charges

Group	Onerous contract	Decommissioning	Restructuring	Remediation	Other	Deferred tax	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2011	2,860	37,921	300	13,385	757	2,221	57,444
Reclassification *	1,967	(5,281)	-	3,314	-	-	-
Addition created through fixed assets	-	3,428	-	-	-	-	3,428
Released to profit and loss account	(186)	(1,410)	-	(2,885)	-	(2,221)	(6,702)
Charged to profit and loss account	864	645	6,006	-	-	-	7,515
Changes relating to movements in the discounted amount	-	1,599	-	-	-	-	1,599
Utilised	(2,020)	(124)	(629)	-	-	-	(2,773)
At 30 June 2012	3,485	36,778	5,677	13,814	757	-	60,511

* During the year, certain brought forward provisions have been reviewed and reclassified to appropriate categories in line with the constituent parts of each individual provision.

The onerous contract provision relates to supplier contracts where the costs are expected to exceed the benefits, and onerous lease contracts where the buildings are empty but lease costs are being incurred. The provision is expected to be utilised over the next four years.

Provisions are made for decommissioning and asset at risk costs where the Group has an obligation to restore sites and the cost of restoration is not recoverable from third parties. The provision is in relation to assets of which the remaining useful economic life ranges up to 22 years.

The restructuring provision relates to the costs of a reorganisation of Group operations which will be utilised during the next financial year.

The remediation provision represents the cost of works identified as being required across a number of the Group's sites and is expected to be utilised over the next one to four years.

Other provisions represent a variety of smaller items which are expected to be utilised over the next one to three years.

The current year deferred tax balance is an asset, see note 14.

The Company has no provisions (2011: nil).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

19 Share capital

	Group and Company 30 June 2012 £'000	Group and Company 30 June 2011 £'000
Authorised:		
1,016,500,000 ordinary shares of £1 each	1,016,500	1,016,500
Allotted, called up and fully paid:		
653,928,000 ordinary shares of £1 each	653,928	653,928

20 Share premium account

	Group and Company £'000
At 1 July 2011 and 30 June 2012	315,638

21 Profit and loss reserve

	£'000
Group	
At 1 July 2011	(1,284,573)
Actuarial loss on pension scheme	(13,800)
Movement on deferred tax relating to pension liability	3,312
Exchange adjustments offset in reserves (translation of foreign investments)	3
Loss for the financial year	(220,162)
At 30 June 2012	(1,515,220)
	£'000
Company	
At 1 July 2011	524,109
Profit for the financial year	183,224
At 30 June 2012	707,333

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

22 Reconciliation of movement in shareholders' (deficit) / funds

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Group		
Loss for the financial year	(220,162)	(250,555)
Dividends	-	(15)
Other recognised gains and losses relating to the year	(10,485)	8,898
Net change in shareholders' deficit	(230,647)	(241,672)
Opening shareholders deficit	(315,007)	(73,335)
Closing shareholders' deficit	(545,654)	(315,007)
Company		
Profit for the financial year	183,224	149,045
Net change in shareholders' funds	183,224	149,045
Opening shareholders' funds	1,493,675	1,344,630
Closing shareholders' funds	1,676,899	1,493,675

23 Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group Year ended 30 June 2012	Group Year ended 30 June 2011
	£'000	£'000
Operating profit	123,780	112,829
Non – operating profit exceptional items	-	(10,937)
Depreciation charge	94,076	89,208
Impairment of fixed assets	5,634	-
Amortisation charge	155,179	155,403
Impairment of financial instrument	-	3,000
Loss on disposal of tangible fixed assets	257	2,010
Loss on disposal of intangible fixed asset	-	97
Increase in debtors	(11,135)	(15,033)
Increase / (decrease) in creditors	9,557	(26,918)
Increase in provisions	260	5,466
Net cash inflow from continuing operations	377,608	315,125
Operating loss	-	(9,774)
Increase in debtors	-	(2,710)
Increase in creditors	-	361
Decrease in provisions	-	(3,138)
Net cash outflow from discontinued operations	-	(15,261)
Total net cash inflow from operating activities	377,608	299,864

Net cash inflow from operating activities includes cash outflows relating to exceptional items of £16,521,000 (2011: £8,801,000). The balance of £7,147,000 is expected to be paid within the next financial year.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

24 Analysis of changes in net debt

	Note	At 1 July 2011 £'000	Cash flows £'000	Non-cash changes £'000	At 30 June 2012 £'000
Cash at bank and in hand	15	52,744	276,908	-	329,652
Loans to joint ventures	14	4,808	-	(4,808)	-
Debt due within one year	16	-	-	-	-
Debt due after one year	17	(3,663,421)	(225,093)	(288,550)	(4,177,064)
Finance leases	16, 17	(15,398)	423	-	(14,975)
Total		(3,621,267)	52,238	(293,358)	(3,862,387)

Major non-cash changes include a £54,036,000 (2011: £76,823,000) increase in accrued liability on interest rate swaps, and £219,275,000 relating to the issuance of additional shareholder loan notes in respect of accrued interest on the existing shareholder loan notes.

25 Commitments for expenditure

Capital commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as a liability are payable as follows:

	30 June 2012 £'000	30 June 2011 £'000
Within one year	24,728	39,269
Later than one year but not later than five years	3,003	310
Later than five years	-	-
Total capital commitments	27,731	39,579

At the balance sheet date, the Group has entered into forward contracts to sell Euros at a total value of £11,985,000 (2011: £1,678,000) and sell US Dollars at a total value of £8,093,000 (2011: £nil). All contracts expire within one year.

Operating leases

Annual commitments in relation to non-cancellable operating leases for land, buildings and other infrastructure locations expiring:

	30 June 2012 £'000	30 June 2011 £'000
Within one year	714	1,555
Later than one year but not later than five years	6,012	4,150
Later than five years	16,774	17,703
Total land, buildings and other infrastructure locations annual lease commitments	23,500	23,408

The annual commitments above exclude amounts relating to contingent rentals, cancellable leases and leases which have expired their initial term and now operate on a rolling notice period of less than one year. Accordingly, the annual lease expense seen in note 3 is greater than the commitment shown above.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Other annual lease commitments expiring:

	30 June 2012	30 June 2011
	£'000	£'000
Within one year	93	211
Later than one year but not later than five years	1,449	1,072
Total other annual lease commitments	1,542	1,283

26 Contingent liabilities

Under the terms of the Group's external debt facilities, the Company has provided security over the fixed and other assets by way of fixed and floating charges.

The Group is the head lessee for two properties occupied by companies forming part of the Virgin Media (formerly NTL) group. Arqiva Limited is in the process of assigning these leases to Virgin Media companies, but this process was incomplete at 30 June 2012. Virgin Media companies continue to occupy the buildings concerned and to bear all costs associated with the properties, which carry an annual rental of £2,237,000 in total. The total rentals remaining on the outstanding lease terms (which expire by November 2014 at the latest) at 30 June 2012 total £5,292,000 (2011: £7,529,000). Although Virgin Media have indemnified Arqiva Limited for these costs, Arqiva Limited remains ultimately liable for the costs concerned.

27 Pension commitments

Defined benefit scheme

In the year to 30 June 2012, the Group operated one defined benefit scheme, sponsored by Arqiva Limited. The assets of the scheme are held separately from those of Arqiva Limited in trustee administered funds.

Triennial valuation

The triennial valuation of the Group's defined benefit pension obligations as at 30 June 2011, for actuarial funding purposes, has resulted in an assessed deficit of £17.4m. Gross plan liabilities at the valuation date were £130.5m compared to gross plan assets of £113.1m. Arqiva Limited has agreed with the trustee to make deficit recovery payments into the Plan of £5.7m in July 2013, £5.7m in July 2014 and £4.1m in July 2015, after taking into account payments already made under the previous recovery plan since the date of the valuation.

FRS 17 assumptions

The assumptions used for the scheme for the purpose of the FRS 17 accounting position as at the year end are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit / surplus of assets below / above the FRS 17 liabilities (which equals the gross pension liability / asset).

An actuarial valuation for the purpose of statutory reporting under FRS 17 was carried out at 30 June 2012 in consultation with an independent firm of consulting actuaries, Lane Clark & Peacock LLP. The principal assumptions made are:

	30 June 2012	30 June 2011
Price inflation (RPI)	3.00%	3.65%
Price inflation (CPI)	2.00%	2.65%
Discount rate	4.70%	5.75%
Pension increases (LPI with a minimum of 3%)	3.50%	3.80%
Salary growth	3.00%	4.15%
Life expectancy of a male age 60 (current pensioner)	26.6yrs	25.7yrs
Life expectancy of a male age 60 (future pensioner)	28.2yrs	27.0yrs

As required by FRS 17 'Retirement benefits', the value of the defined benefit liabilities has been measured using the projected unit method.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

Asset distribution and long term rate of return expected

	30 June 2012	30 June 2012	30 June 2011	30 June 2011
	Expected return	Fair value	Expected	Fair value
		£'000	return	£'000
Equities	6.70%	65,600	7.35%	72,100
Bonds	3.50%	62,500	4.80%	38,600
Cash	0.50%	200	0.50%	2,400
Total		128,300		113,100

Balance sheet

Total fair value of assets	128,300	113,100
Present value of scheme liabilities	(131,300)	(109,500)
Gross pension (liability) / asset	(3,000)	3,600
Deferred tax asset / (liability)	720	(936)
Net pension (liability) / asset	(2,280)	2,664

No amounts within the fair value of the arrangements are in respect of the Company's own financial instruments or any property occupied by, or assets used by, the Group.

A higher long term rate of return is expected on equity investments than that which is available on bonds. The extent to which equities are assumed to provide higher returns than bonds in the future is estimated based on the returns achieved above bond returns historically and market conditions at the balance sheet date.

Arqiva Limited pays contributions of 26.3% of pensionable salaries for the majority of the 351 active members of the scheme, plus the cost of matching AVC added year payments.

The present value of the scheme liabilities has moved over the year as follows:

	Year ended	Year ended
	30 June 2012	30 June 2011
	£'000	£'000
1 July	109,500	101,800
Current service costs	4,600	4,700
Settlements	600	(100)
Contributions by employees	1,800	2,200
Interest cost	6,300	5,800
Benefits paid	(2,000)	(3,000)
Actuarial loss / (gain)	10,500	(1,900)
30 June	131,300	109,500

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

The fair value of the scheme assets has moved over the year as follows:

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
1 July	113,100	89,500
Expected return on scheme assets	7,500	5,700
Actuarial (loss) / gain	(3,300)	10,600
Contributions by employers	11,200	8,100
Contributions by employees	1,800	2,200
Benefits paid	(2,000)	(3,000)
30 June	128,300	113,100

The post retirement deficit under FRS 17 moved over the year as follows:

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Surplus / (deficit) at 1 July	3,600	(12,300)
Current service costs	(4,600)	(4,700)
Settlements	(600)	100
Contributions	11,200	8,100
Other net finance income / (expense)	1,200	(100)
Actuarial (loss) / gain	(13,800)	12,500
(Deficit) / surplus at 30 June	(3,000)	3,600

The following amounts have been included within operating profit:

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Current services cost (employer only)	4,600	4,700
Settlements	600	(100)
Total operating charge	5,200	4,600

The following amounts have been included as net finance expense under FRS 17:

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Expected return on pension scheme assets	7,500	5,700
Interest on post retirement liabilities	(6,300)	(5,800)
Net finance income / (expense)	1,200	(100)

The actual return on scheme assets was a gain of £4,200,000 (2011: £16,300,000).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

The following amounts have been recognised within the statement of group total recognised gains and losses ('STRGL') under FRS 17:

	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000
Actual return less expected return on scheme assets	(3,300)	10,600
(Losses) / gains due to changes in assumptions underlying the FRS 17 value of scheme liabilities	(12,200)	1,900
Experience gains arising on the scheme's liabilities	1,700	-
Actuarial (loss) / gain recognised in the STRGL	(13,800)	12,500

The cumulative amount of actuarial gains and losses recognised in the STRGL is a loss of £15,010,000 (2011: £1,210,000).

The history of experience gains and losses is:

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(131,300)	(109,500)	(101,800)	(78,520)	(72,920)
Fair value of scheme assets	128,300	113,100	89,500	68,480	66,430
(Deficit) / surplus on scheme	(3,000)	3,600	(12,300)	(10,040)	(6,490)
Actual return less expected return on scheme assets	(3,300)	10,600	7,620	(10,640)	(9,960)
Percentage of Scheme's assets	(3%)	9%	9%	(16%)	(15%)
Experience gains and (losses) arising on scheme's liabilities	1,700	-	-	(959)	(300)
Percentage of the FRS 17 value of the scheme's liabilities	(1%)	0%	0%	1%	0%
Total amount recognised in the STRGL	(13,800)	12,500	(6,060)	(3,030)	(8,720)
Percentage of the FRS 17 value of the scheme's liabilities	11%	(11%)	6%	4%	12%

The scheme is closed to new entrants and under the method used to calculate pension costs in accordance with FRS 17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

Other pension schemes

Arqiva Limited

Arqiva Limited has operated a defined contribution scheme during the year, for those employees who are not members of the Defined Benefit scheme described above. Contributions payable in respect of this scheme for the year were £4,289,000 (2011: £5,069,000). The assets of the scheme are held outside of the Group.

An amount of £654,000 (2011: £553,000) is included in accruals being the outstanding contributions to the defined contribution scheme.

Arqiva Inc

Arqiva Inc operates a defined contribution scheme for its employees. Contributions payable in respect of this scheme for the year were £67,000 (2011: £74,000). The assets of the scheme are held outside of the Group.

An amount of £6,000 (2011: £6,000) is included in accruals being the outstanding contributions to the defined contribution scheme.

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

28 Related party disclosures

On a consolidated basis, transactions and balances between Group entities have been eliminated in full and are therefore not disclosed in accordance with FRS 8 'Related party disclosures'.

The Company has taken advantage of the exemptions available under FRS 8 for disclosure of transactions with entities that are part of the Group as related parties in these financial statements. The only Company related party transaction that is not exempt from disclosure is the intercompany debtor balance with Arqiva Financing No 3 Plc ('AF3') of £1,285,784,000 (2011: £1,350,672,000) as this is not a wholly owned subsidiary. Interest has been charged on £384,510,000 at 18% and £901,274,000 at 9.75% (2011: £525,575,000 at 18%, £805,943,000 at 9.75% and £19,154,000 at 0%).

Related party transactions:

As at 30 June 2012, the amount outstanding from Arts Alliance Media Investment Limited, a joint venture company, including accrued interest was £nil (2011: £4,808,000). No interest was charged during the year to 30 June 2012 (2011: £3,750,000 at 0% and £525,000 at 15%) but an adjustment of £13,000 was made to the 2011 balance. The loan was converted into an equity investment during the year.

In 2012 the Group received a dividend from MXR Holdings Limited, a Company in which the Group has a trade investment, of £60,000 (2011: £72,000). In 2011 the Group received an additional cash payment of £126,000 relating to the dividend declared on 24 June 2010.

The Group paid subscriptions of £2,573,000 (2011: £2,738,000) to DTV Services Limited, an associate undertaking, and £5,456,000 (2011: £4,568,000) to YouView TV Limited, a joint venture.

2012	Macquarie Bank Limited *	Airwave *	Broadcast Australia *	MGIF II *	MEIF II * +	Macquarie Prism *	Macquarie Capital Group Limited *	FICAL * +	MTAA Superannuation *	Macquarie FSS Infrastructure *
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Swap interest paid	7,954	-	-	-	-	-	-	-	-	-
Shareholder loan notes ~	-	-	-	4,681	238,638	5,325	-	458,212	33,789	35,495
Shareholder loan note interest for the year	-	-	-	863	30,146	982	-	57,884	6,228	6,543
Accrued shareholder loan note interest	-	-	-	2,592	15,469	2,949	-	29,702	18,710	19,655
Sales (net)	-	13,479	-	-	-	-	-	-	-	-
Expenses	-	457	-	-	-	-	131	-	-	-
Trade creditors	-	(153)	-	-	-	-	-	-	-	-

* A related party by virtue of common influence.

+ An investor company and a related party by virtue of significant shareholding (as at 30 June 2012).

~ Additional shareholder loan notes were issued to MEIF II & FICAL in respect of accrued interest on the existing shareholder loan notes.

2011	Macquarie Bank Limited *	Airwave *	Broadcast Australia *	MGIF II *	MEIF II * +	Macquarie Prism *	Macquarie Capital Group Limited *	FICAL * +	MTAA Superannuation *	Macquarie FSS Infrastructure *
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Swap interest paid	7,126	-	-	-	-	-	-	-	-	-
Shareholder loan notes	-	-	-	4,681	163,547	5,325	-	314,028	33,789	35,495
Shareholder loan note interest for the year	-	-	-	760	26,548	864	-	50,975	5,485	5,762
Accrued shareholder loan note interest	-	-	-	1,729	60,414	1,967	-	116,002	12,482	13,112
Sales (net)	-	13,743	-	-	-	-	-	-	-	-
Expenses	-	426	41	-	-	-	181	-	-	-
Trade debtors	-	243	-	-	-	-	-	-	-	-

* A related party by virtue of common influence.

+ An investor company and a related party by virtue of significant shareholding (as at 30 June 2011).

Arqiva Broadcast Holdings Limited

Annual Report and Consolidated Financial Statements - Year ended 30 June 2012

29 Post balance sheet events

On 2 July 2012, the Group announced that it had agreed terms with the Board of Spectrum Interactive Limited ('Spectrum Interactive'), a leading UK based Wi-Fi operator, for an offer to acquire 100% of the shares for a total cash consideration of £23,439,000. On 30 July 2012, the offer was declared unconditional in all respects.

The acquisition of Spectrum Interactive will enable the Group to build a unique proposition for wholesale Wi-Fi hotspot provision in the UK and gives the business 15,500 access points in over 2,100 premium Wi-Fi locations across hotels, restaurants and leisure outlets as well as airports, airline lounges, motorway service station and public locations on high streets. When combined with the Group's existing Wi-Fi and cellular assets it gives the Group a highly scalable platform for meeting the growing demand for wholesale mobile data services.

Spectrum Interactive will become part of the GME business unit.

30 Controlling parties

The Company is owned by a consortium of shareholders including Canada Pension Plan Investment Board, Macquarie European Infrastructure Fund II, other Macquarie managed funds and minorities. There is no ultimate controlling party of the Company, as defined by FRS 8.

The Company is the parent company of the largest group to consolidate these financial statements.