



Arqiva Broadcast Holdings Limited

Group Trading Update (unaudited) – Half Year to December 2013

1. Group Trading Summary Report for the Half Year

Turnover for the six months ending 31 December 2013 was £402.5m, a decrease of 0.9% compared with the same period in the prior year (December 2012: £406.1m). The decrease was principally due to a reduction in Terrestrial project and Satellite revenues partially offset by increases in Telecoms and Digital Platforms.

The Group generated EBITDA (before exceptional items and share of income from associates and joint ventures) of £199.6m, a decrease of 2.1% over the same period in the prior year. (December 2012: £203.9m). This fall was principally due to a reduction in project related revenues in the Terrestrial business, partially offset by a growth in lower margin products in other areas.

Exceptional items for the 6 month period to December 2013 of £2.3m primarily comprised of costs resulting from the internal reorganisation.

Depreciation was £57.0m for the half-year, £7.0m higher than the comparative figure for the same period in the prior year due to the capitalisation of a number of major projects together with circa £4m of one off items in the quarter to 30 September 2013.

Profit before interest and tax was £62.1m, an increase of 5.6% over the same period in the prior year (December 2012: £58.8m).

For the six months ended 31 December 2013, the Group's capital expenditure and financial investment was £75.1 million, representing a 47.5% increase from £50.9 million in the same period in the prior year. The overall increase in total capital expenditure and financial investment compared with the six months ended 31 December 2012 was principally as a result of increased spending in connection with new contract wins and business such as Smart Metering, WiFi, Local TV, HD Multiplexes, MIP, and Satellite projects which will generate additional revenues and EBITDA in future periods.

£m	6 months to 31 Dec 2013 Actual	6 months to 31 Dec 2012 Actual
Turnover	402.5	406.1
Cost of Sales	(148.5)	(146.3)
Gross profit	254.0	259.8
Other operating charges	(190.6)	(187.9)
Operating profit	63.4	71.9
Share of income / loss from associate	0.6	(0.8)
Income from investments	0.4	0.1
Exceptional items	(2.3)	(12.4)
Profit before interest and tax	62.1	58.8



Reconciliation to EBITDA £m	6 months to 31 Dec 2013 Actual	6 months to 31 Dec 2012 Actual
Profit before interest and tax	62.1	58.8
Depreciation	57.0	51.8
Amortisation of intangible assets	78.8	79.4
Share of income / loss from associate	(0.6)	0.8
Exceptional items	2.3	12.4
Other (including profit/loss on disposal of fixed assets and operational bank charges)	0.0	0.7
EBITDA	199.6	203.9

2. Significant events

Smart metering

On the 20 September 2013, Arqiva signed a 15-year contract with the Data and Communications Company (the DCC, a body licensed by statute) to provide smart metering communications for approximately 9.3 million premises in Scotland and northern England, utilising 842 sites as one of three regional contracts awarded.

The Smart Metering contract became effective in December 2013 on completion of financing commitments specific to the contract. Work is underway to build the network required to deliver the service, and all DCC contract deliverables have been achieved to date.

O2/Vodafone joint venture - Cornerstone Telecommunications Infrastructure Limited

This joint venture between Telefonica O2 and Vodafone pools both companies' network infrastructure and will create a shared grid of 18,500 masts, which will represent an increase of more than 40% in points of presence for each operator. The companies expect that this will result in a 10% overall reduction in the total number of sites used by both operators.

In November 2013, Arqiva signed a ten year framework contract with CTIL and its parents O2 Telefonica and Vodafone. This deal will allow the operators to consolidate their 2G / 3G networks on Arqiva's sites, and rollout 4G LTE services. Under the contract the Group will provide the installation services on its own sites, for which it expects to lead to increased installation services revenue. The Group has started to receive a pipeline of orders for upgrade activities.

Issue of licence for 600MHz spectrum

Ofcom issued the 12 year license for the use of 600MHz spectrum to Arqiva on 29 July 2013. The Group commenced construction of the new Freeview HD Multiplex network in August 2013 and reached 50% population coverage as at the end of January 2014. Rollout is currently in line with plans and the Group has been successful in meeting all contractual obligations to date. It is on target to achieve 65% by the end of March 2014 and expects to finally reach 70% national coverage through its top 30 sites by June 2014.

The new HD services will only be available to viewers with HD television sets or set-top boxes and maximum coverage upon rollout completion is expected to be 70%, compared to 90% and 98.5% for commercial and Public Service Broadcasting (PSB) channels, respectively, on other Multiplexes.

Since the service started, five new channels have been launched on the new HD Multiplexes: Al Jazeera Arabic, Al Jazeera English HD, BBC News 24 HD, BBC 3 HD and CBeebies HD. Active discussions are underway with a number of PSBs and commercial broadcasters regarding the carriage of additional HD channels from their portfolios.



Local TV

Local TV is a government initiative, implemented by Ofcom with oversight from the BBC Trust, to establish local television in the UK. On 29 July 2013, Comux, the Multiplex operator licensee, awarded the Group a 12-year contract, under which the Group will be responsible for delivering Local TV across 19 high population areas of the UK by providing the primary transmission services, including network access and managed transmissions. The first station went live in November 2013 in Grimsby. At the end of December 2013, 18 local TV sites were successfully completed and ready for transmission, in line with the contract. Local TV in London is scheduled to be launched in March 2014.

Business Re-alignment

On 1 October 2013, Arqiva implemented its newly aligned organisational structure. The new structure will help to further improve customer service by more closely integrating operational service delivery with the customer facing units. The key changes were:

- Moving to five product and customer led divisions;
 - Digital Platforms
 - Terrestrial Broadcast
 - Smart Metering (including machine to machine)
 - Satellite
 - Telecoms
- Business Operations, which provided engineering, delivery and maintenance services for the Group split vertically between the relevant product and customer led business units;
- Creation of a new Technology division following the appointment of Cameron Rejali, the new Chief Technology Officer in August 2013 to drive new product development and manage shared services across the Group;
- The customer facing divisions will be supported by central corporate functions comprising;
 - Finance
 - Strategy and Business Development
 - People and Organisation
 - Commercial

The new structure will also give management of customer facing units increased responsibility for their end-to-end services and provide a stronger platform for business growth.