



Arqiva Group Limited

Registered number 05254001

Regulatory Accounts

For the year ended 30 June 2018

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

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Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Directors' report

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

The Directors of Arqiva Group Limited ("AGL") and its subsidiaries (together 'the Group') hereby submit the Regulatory Accounts for its NA and MTS activities as defined by the Undertakings, in respect of the year ended 30 June 2018.

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

The RA are prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 22 October 2018 ("RAPM").

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

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Statement of Directors' responsibilities

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

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

- that the Regulatory Accounts are based on information that has been properly extracted from Arqiva Group Limited's (AGL's) accounting records;
- that the accounting principles, methodologies and rules as set out in the separate document entitled 'Arqiva Regulatory Accounting Principles and Methodologies' dated 22 October 2018 the "Framework") have been applied appropriately;
- the Regulatory Accounts have been reconciled to the AGL statutory accounts which have been prepared in accordance with IFRS and application of the regulatory framework;
- that the Group's accounting records and relevant meeting minutes have been made available to PricewaterhouseCoopers LLP as required for the purposes of their audit.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. The maintenance and integrity of the OTABTS' website is the responsibility of the Adjudicator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the respective websites.

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

By order of the Board



Frank Dangeard
Director
Crawley Court, Crawley
Winchester, Hampshire
SO21 2QA
22 October 2018

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

Report on the Regulatory Accounts

Opinion

We have audited the Regulatory Accounts of Arqiva Group Limited and its subsidiaries (together the "Group") for the year ended 30 June 2018 on pages 8 to 14 which comprise the Income Statement for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Reconciliation to Statutory Consolidated Income Statement Account, the Reconciliation to the Statutory Consolidated Statement of Financial Position and Notes to the Regulatory Accounts.

These Regulatory Accounts have been prepared in accordance with the Regulatory Accounting Principles and Methodologies dated 22 October 2018 ("RAPM") agreed with the Adjudicator and accounting policies set out in the Basis of Preparation on page 14.

In our opinion the Regulatory Accounts are:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the Regulatory Accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

As explained in the RAPM and the "Basis of Preparation" on page 14, the Group has prepared the Regulatory Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Group maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the statutory consolidated financial statements of the Group for the year ended 30 June 2018 (the "Statutory Accounts").

PricewaterhouseCoopers LLP audited the Statutory Accounts on which they expressed an unqualified audit opinion. In conducting our subsequent examination of the Regulatory Accounts, and in providing the opinion above, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audit of the Statutory Accounts.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Regulatory Accounts in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

You are aware that we have used Jon Butler as an auditors' expert to assist us with our work in the area of Windloading. Jon Butler became an employee of OFCOM during the prior year working with the Adjudicator, Alan Watson. It has been confirmed to us by the Adjudicator that Jon Butler has had no involvement in the process of the reporting to OFCOM or in undertaking and evaluating the results of our work. We have requested and have been provided with a confirmation of Jon Butler's independence by Jon Butler.

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Emphasis of matter - Basis of preparation

In forming our opinion on the Regulatory Accounts, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Conditions 15.1 and 15.2 of the Undertakings and the RAPM.

- The Regulatory Accounts are separate from the Statutory Accounts and have not been prepared in accordance with IFRSs as adopted by the European Union or UK GAAP, as applicable, and the Act (and, where relevant, Article 4 of the IAS Regulation) or other relevant legislation;
- Financial information other than that prepared on the basis of IFRSs as adopted by the European Union or UK GAAP, as applicable, does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

This basis of preparation represents a special purpose framework for the Adjudicator appointed by Ofcom and the Group for the specific purpose as described in the *Use of this report* paragraph below. As a result, the Regulatory Accounts may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounts is not appropriate; or
- the directors have not disclosed in the Regulatory Accounts any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from 6 September 2018 the date when the Statutory Accounts were authorised for issue.

Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the RAPM other than the Regulatory Accounts and our auditors' report thereon.

The directors are responsible for the other information. Our opinion on the Regulatory Accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the Regulatory Accounts and the audit

Responsibilities of the Adjudicator and the Directors

The Directors are responsible for the preparation of the Regulatory Accounts in accordance with conditions 15.1 and 15.2 of the Undertakings to the Competition Commission by Arqiva Group Limited and its shareholders on 1 September 2008 ("the Undertakings") and the RAPM agreed with the Adjudicator.

The Directors are also responsible for determining that the basis of preparation is acceptable in the circumstances and also for such internal control as they determine is necessary to enable the preparation of the Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Regulatory Accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable matters related to going concern, and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so. In this regard the directors' assessment was made for the purposes of the preparation of the Statutory Accounts approved on 22 October 2018 and, therefore, covers a period of at least, but not limited to, twelve month period from that date

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Auditor's responsibilities for the audit of the Regulatory Accounts

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report is made on terms that have been agreed solely between the Group, the Adjudicator and the Auditors in order to meet the requirements of the Undertakings. Our audit work has been undertaken so that we might state to the Group and the Adjudicator those matters that we have agreed to state to them in our report, in order (a) to assist the Group to meet its obligation under the Undertakings to procure such a report and (b) to facilitate the carrying out by the Adjudicator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Adjudicator, for our audit work, for this report or for the opinions we have formed.

Other required reporting

Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where, under Condition 15.6 of the Undertakings, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from operating locations not visited by us;
- the Regulatory Accounts are not in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts; and
- we have not received all the information and explanations we require for our audit.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

Date: 22 October 2018

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Income Statement

| | Network Access | Managed Transmission Services | Network Access | Managed Transmission Services |
|---|----------------------------|--|----------------------------|--|
| | Year ended 30 June 2018 | Year ended 30 June 2018 | Year ended 30 June 2017 | Year ended 30 June 2017 |
| | £m | £m | £m | £m |
| TV revenue | 143.2 | 38.9 | 139.8 | 38.9 |
| Radio revenue | 49.2 | 19.4 | 48.7 | 19.1 |
| Total revenue | 192.4 | 58.3 | 188.5 | 58.0 |
| Rent and rates | (18.5) | - | (18.8) | - |
| Labour Cost of Sales and Maintenance | (8.6) | (9.7) | (10.1) | (11.8) |
| Cost of Sales | (27.1) | (9.7) | (28.9) | (11.8) |
| Operating expenses | (23.2) | (4.4) | (21.9) | (4.7) |
| Depreciation | (37.1) | (16.5) | (34.6) | (17.5) |
| Total operating expenses | (60.3) | (20.9) | (56.5) | (22.2) |
| Exceptional costs | (0.2) | - | (4.0) | (1.2) |
| Operating profit (after exceptional costs) | 104.8 | 27.7 | 99.1 | 22.8 |

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Statement of Financial Position

| | Network Access | Managed Transmission Services | Network Access | Managed Transmission Services |
|--|---------------------------|--|---------------------------|--|
| | 30 June 2018 | 30 June 2018 | 30 June 2017 | 30 June 2017 |
| | £m | £m | £m | £m |
| Property, plant and equipment | 600.8 | 168.3 | 622.5 | 178.9 |
| Current Assets | | | | |
| Trade and other receivables | 41.0 | 14.5 | 36.3 | 13.6 |
| Cash and cash equivalents | 5.3 | 1.6 | 5.3 | 1.6 |
| Total Current Assets | 46.3 | 16.1 | 41.6 | 15.2 |
| Trade and other payables | (20.1) | (6.9) | (23.6) | (7.3) |
| Provisions | (1.1) | - | (4.9) | (1.0) |
| Net Current Assets/(Liabilities) | 25.1 | 9.2 | 13.1 | 6.9 |
| Total Assets less Current Liabilities | 625.9 | 177.5 | 635.6 | 185.8 |
| Provisions | (46.6) | (2.9) | (42.1) | (2.7) |
| Capital Employed | 579.3 | 174.6 | 593.5 | 183.1 |

These Regulatory Accounts were approved by the Board of Directors on 22 October 2018 and were signed on its behalf by:



Frank Dangeard - Director

Arqiva Group Limited

Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

**Reconciliation to Statutory Consolidated Income Statement
Account for the year ended 30 June 2018**

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|--|----------------------------|--|----------------------------|---|
| | Year ended 30 June 2018 | Year ended 30 June 2018 | Year ended 30 June 2018 | Year ended 30 June 2018 |
| | £m | £m | £m | £m |
| Revenue | 192.4 | 58.3 | 723.5 | 974.2 |
| Cost of sales | (27.1) | (9.7) | (292.4) | (329.2) |
| Operating expenses | (23.2) | (4.4) | (95.5) | (123.1) |
| Depreciation | (37.1) | (16.5) | (110.1) | (163.7) |
| Operating profit | 105.0 | 27.7 | 225.5 | 358.2 |
| Exceptional items | (0.2) | - | (10.9) | (11.1) |
| Operating profit (after exceptionals) | 104.8 | 27.7 | 214.6 | 347.1 |
| Income statement items excluded for regulatory reporting purposes * | | | | |
| Amortisation | | | | (16.7) |
| Impairment | | | | (4.4) |
| Other income | | | | 4.6 |
| Share of results of associates and joint ventures | | | | 0.2 |
| Finance income | | | | 1.8 |
| Finance costs | | | | (624.6) |
| Other gains and losses | | | | 92.3 |
| Other gains and losses (exceptional) | | | | 0.1 |
| Loss before tax | | | | (199.6) |
| Tax | | | | 209.3 |
| Profit for the financial year | | | | 9.7 |

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2018.

Reconciliation to Statutory Consolidated Income Statement Account for the year ended 30 June 2017

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|--|----------------------------|--|----------------------------|---|
| | Year ended 30 June 2017 | Year ended 30 June 2017 | Year ended 30 June 2017 | Year ended 30 June 2017 |
| | £m | £m | £m | £m |
| Revenue | 188.5 | 58.0 | 697.3 | 943.8 |
| Cost of sales | (28.9) | (11.8) | (316.2) | (356.9) |
| Operating expenses | (21.9) | (4.7) | (93.5) | (120.1) |
| Depreciation | (34.6) | (17.5) | (89.5) | (141.6) |
| Operating profit | 103.1 | 24.0 | 198.1 | 325.2 |
| Exceptional items | (4.0) | (1.2) | (24.3) | (29.5) |
| Operating profit (after exceptionals) | 99.1 | 22.8 | 173.8 | 295.7 |
| Income statement items excluded for regulatory reporting purposes * | | | | |
| Amortisation | | | | (12.6) |
| Other income | | | | 1.1 |
| Share of results of associates and joint ventures | | | | 0.3 |
| Finance income | | | | 3.7 |
| Finance costs | | | | (582.1) |
| Other gains and losses | | | | (112.5) |
| Other gains and losses (exceptional) | | | | (20.6) |
| Loss before tax | | | | (427.0) |
| Tax | | | | (0.1) |
| Loss for the financial year | | | | (427.1) |

* For further detail in respect of the nature of Income Statement items excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2017.

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Network Access and Managed Transmission Services Regulatory Accounts - Year ended 30 June 2018

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2018

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|--|--------------------|-------------------------------------|--------------------|------------------------------------|
| | 30 June 2018 £m | 30 June 2018 £m | 30 June 2018 £m | 30 June 2018 £m |
| Property, plant and equipment | 600.8 | 168.3 | 981.1 | 1,750.2 |
| Trade and other receivables | 41.0 | 14.5 | 264.9 | 320.4 |
| Cash and cash equivalents | 5.3 | 1.6 | 41.0 | 47.9 |
| Total Current Assets | 46.3 | 16.1 | 305.9 | 368.3 |
| Trade and other payables | (20.1) | (6.9) | (367.5) | (394.5) |
| Provisions | (1.1) | - | (1.7) | (2.8) |
| Net Current Assets/(Liabilities) | 25.1 | 9.2 | (63.3) | (29.0) |
| Total Assets less Current Liabilities | 625.9 | 177.5 | 917.8 | 1,721.2 |
| Provisions | (46.6) | (2.9) | (15.3) | (64.8) |
| Capital Employed | 579.3 | 174.6 | 902.5 | 1,656.4 |
| Assets/(Liabilities) excluded for regulatory reporting purposes * | | | | |
| Intangible assets including goodwill | | | | 2,039.0 |
| Interest in associates and joint ventures | | | | - |
| Loans receivable from joint ventures (note 1) | | | | 0.1 |
| Amounts receivable from finance lease arrangements (note 1) | | | | 2.0 |
| Deferred tax assets | | | | 207.6 |
| Retirement benefits | | | | 20.6 |
| Borrowings | | | | (5,943.5) |
| Derivative financial instruments | | | | (1,049.8) |
| Other payables | | | | (307.4) |
| Total Capital Employed | | | | (3,375.0) |

Note 1 FY18 Group AGL accounts include Loans receivable from joint ventures of £0.1m and Amounts receivable from finance lease arrangements of £2.0m within Trade and other receivables which are excluded from the regulatory accounts.

Note 2 FY18 Group AGL accounts include other payables which comprise wholly of long term deferred income. The long term deferred income balance is outside of the scope of the regulatory accounts as per the undertakings which only require disclosure of the current deferred income balance.

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2018.

Reconciliation to Statutory Consolidated Statement of Financial Position at 30 June 2017

| | Network Access | Managed Transmission Services | Other | Total per Statutory Accounts |
|--|---------------------------|--|--------------------|---|
| | 30 June 2017 £m | 30 June 2017 £m | 30 June 2017 £m | 30 June 2017 £m |
| Property, plant and equipment | 622.5 | 178.9 | 968.8 | 1,770.2 |
| Trade and other receivables (Note 1) | 36.3 | 13.6 | 272.0 | 321.9 |
| Cash and cash equivalents | 5.3 | 1.6 | 39.6 | 46.5 |
| Total Current Assets | 41.6 | 15.2 | 311.6 | 368.4 |
| Trade and other payables | (23.7) | (7.3) | (389.0) | (420.0) |
| Provisions | (4.9) | (1.0) | (12.9) | (18.8) |
| Net Current Assets/(Liabilities) | 13.0 | 6.9 | (90.3) | (70.4) |
| Total Assets less Current Liabilities | 635.5 | 185.8 | 878.5 | 1,699.8 |
| Provisions | (42.1) | (2.7) | (12.2) | (57.0) |
| Capital Employed | 593.4 | 183.1 | 866.3 | 1,642.8 |
| Assets/(Liabilities) excluded for regulatory reporting purposes * | | | | |
| Intangible assets including goodwill | | | | 2,028.9 |
| Interest in associates and joint ventures | | | | 5.1 |
| Loans receivable from joint ventures (Note 1) | | | | 0.6 |
| Amounts receivable from finance lease arrangements (Note 1) | | | | 2.2 |
| Retirement benefits | | | | 7.1 |
| Borrowings | | | | (5,714.3) |
| Derivative financial instruments | | | | (1,179.7) |
| Other payables (Note 2) | | | | (186.4) |
| Total Capital Employed | | | | (3,393.7) |

Note 1 FY17 Group AGL accounts include Loans receivable from joint ventures of £0.6m and Amounts receivable from finance lease arrangements of £2.2m within Trade and other receivables which are excluded from the regulatory accounts.

Note 2 FY17 Group AGL accounts include other payables which comprises wholly of long term deferred income. This is outside of the scope of the regulatory accounts as per the Undertakings which only require disclosure of current liabilities.

* For further detail in respect of the nature of assets/liabilities excluded for regulatory reporting purposes please refer to the Arqiva Group Limited Annual Report and consolidated Financial Statements for the year ended 30 June 2017.

Notes to the Regulatory Accounts

1 Principal accounting policies

(a) Basis of preparation

The reporting requirements set out in the Undertakings differ from the way in which AGL is organised for management and statutory reporting purposes. As such, the RA are derived from the IFRS Accounting System used to prepare the consolidated AGL statutory accounts, which includes all of the Group's businesses, with the reporting requirements of the Undertakings set out in the RAPM (dated 22 October 2018) applied to these account balances.

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

The revenues, costs, assets and liabilities for the 'Other' category are arrived at by deducting the total of the Network Access and Managed Transmission Services from the total consolidated balances of AGL and therefore represent the remainder of the Group's business.

These regulatory accounts for the year ended 30 June 2018 have been reconciled to the consolidated AGL statutory accounts which have been prepared in accordance with IFRS.