

## SCHEDULE 7

### FORM OF INVESTOR REPORT/QUARTERLY INVESTOR REPORT

#### Template for Investor Report

To: The Issuer Security Trustee, the Rating Agencies and the Paying Agents

#### General Overview

Arqiva is one of the UK's leading communications infrastructure and media services providers. With significant investments in essential communications infrastructure, the Group is the leading independent telecom towers operator and the sole terrestrial broadcast network provider in the UK. The Group's core infrastructure business (comprising terrestrial broadcast, digital platforms, wireless site-share, smart metering and satellite infrastructure) generates predictable operating profits, supported by strong market positions, diverse revenue streams and long-life assets. A significant proportion of the Group's revenues come from long-term inflation-linked contracts. The Group had a contracted orderbook of £5.5bn as at 30 June 2017.

The Group enjoys the following key competitive advantages:

- regulated position as the sole UK national provider of network access ('NA') and managed transmission services ('MTS') for terrestrial television broadcasting, the most popular television broadcast platform in the UK in terms of platform take-up. The Group owns and operates the television transmission network used for digital terrestrial television ('DTT') broadcasting in the UK and has long-term contracts with public service broadcaster ('PSB') customers (who depend on the Group to meet the obligations under their licences to provide coverage to 98.5% of the UK population) as well as with commercial broadcasters;
- market leader for commercial spectrum used for the transmission of DTT, owning two of the three main national commercial Multiplexes. The Group owns a further two High Definition ('HD') capable DTT (DVB-T2) Multiplexes for additional services on Freeview and DTT related platforms in the DVB-T2 format. DTT video streams in the UK are more valuable to broadcasters than either satellite or cable video streams, due to DTT's extensive viewer coverage, uptake and the more limited number of commercial channels on the platform;
- regulated position as the leading UK national provider of NA and MTS for radio broadcasting. The Group provides NA for 100% of the analogue and DAB digital radio transmission market in the UK and 90% for MTS. Arqiva wholly owns D1, the largest national commercial digital radio multiplex, and is the largest shareholder in SDL, the second national commercial digital radio multiplex and holds 25 of the UK's 56 local radio licences as at 31 December 2017;
- largest independent provider of wireless infrastructure sites in the UK, with c. 8,000 active licensed sites (including contractual options) with prominence in rural and suburban areas. These are licensed to Mobile Network Operators ('MNOs') and other wireless network operators. In addition, Arqiva is a provider of installation services for upgrades and rollouts. Access to Arqiva's active site portfolio is mission-critical for MNOs, in order to meet national coverage obligations stipulated by their spectrum licences;
- access to c. 350,000 municipal street furniture sites for the provision of Small Cells and commercial wireless networks in 14 London boroughs and 3 UK cities including Manchester, Medway and Southampton. The Group also has a leading position in providing neutral host In-Building Solutions and Distributed Antenna Systems (DAS), with 46 systems installed in locations including Canary Wharf, Selfridges and Bluewater;
- a leading provider of smart metering and M2M communications. Contracts include: supply of smart metering communication services in Northern England and Scotland for electricity and

gas to approximately 9.3 million premises; smart water metering network for Thames Water that is expected to cover 3 million homes once fully deployed, and trial contracts with Anglian Water for smart water metering deployment;

- largest owner of independent satellite uplink infrastructure and satellite distribution services in the UK. The Group is the market leader in the managed proposition market, with an estimated outsourced market share of approximately 51% of fully managed channels as of 31 December 2017; and
- a significant proportion of revenue from long-term contracts enjoys automatic RPI-linked increases.

## **Historic Business Developments**

### *Terrestrial Broadcast*

#### *Digital radio (DAB) rollout*

The Group is progressing with the delivery of Commercial local DAB. In total Arqiva is delivering new transmitters or upgrades at 221 sites and as at 31 December 2017 work had been completed at 218. The final sites for this phase will be completed by the end of March 2018, taking local DAB coverage to over 91%.

Arqiva's long term strategy of supporting DAB digital radio take-up continues to show positive results. More than six in ten people in the UK now have a DAB digital radio at home and Arqiva's DAB multiplexes show high utilisation levels driven by strong market demand. In September 2017, two channels of national capacity on SDL were advertised and subsequently sold.

#### *700 MHz Clearance and DTT spectrum*

The DTT platform currently uses spectrum in the 470-790 MHz bands. Ofcom and industry stakeholders are implementing plans to clear the 700MHz band (694 MHz to 790 MHz) of DTT use so that it can be auctioned for use by the mobile network providers. This is a change that will be adopted across Europe, Africa, the Middle East and central Asia.

The Group is contracted with the major broadcasters and Ofcom for the delivery of the programme. Arqiva is responsible for the spectrum planning, network design, programme management, infrastructure changes, service continuity, asset replacement and retuning of broadcast transmitters to enable broadcasters to move into a lower frequency. The programme delivery is progressing well and Arqiva continues to earn revenues and generate cashflows. All Clearance events that were scheduled in 2017 were completed as planned. The programme has a sequence of events through to early 2020.

### *Telecoms & M2M*

#### *Smart energy metering rollout*

Arqiva has rolled out a smart metering communication network in the North of England and Scotland as part of a 15-year contract with the Data and Communications Company (the 'DCC', a body licensed by statute and backed by the utility companies).

The Arqiva network is successfully transmitting and receiving messages between DCC users (the energy companies), and consumer electricity and gas meters. Early-life support to DCC users with their meter installation pilots is continuing on the network and Arqiva has been supporting the DCC with their preparations, ahead of mass roll-out commencing mid-2018. The rollout of the Arqiva network is on track and currently covers 93% of premises in line with our contractual commitments.

### *Smart water metering rollout – Thames Water*

Arqiva has a contract with Thames Water for the provision of smart metering fixed network infrastructure and associated water meters that enable the collection, management and transfer of metering data. The live service is delivering more than 5 million meter readings per day and there are now over 255,000 meters installed, an increase of circa 25,000 since the previous financial report. Following the excellent results achieved to date, Thames Water has taken the decision to accelerate the smart metering network deployment to realise the benefits of extended coverage several years earlier than originally planned. Arqiva is now targeting full network coverage across the entire Thames Water London region by the end of 2018.

### *Smart water metering trial contract wins – Anglian Water*

Arqiva also has contracts with Anglian Water for the delivery and monitoring of smart water metering fixed network trials for the deployment and operation of new water meters in two regions. As at 31 December 2017, Arqiva had installed 6,100 meters out of 7,500 meters for the Newmarket, Suffolk region. For the second region, the Group had installed 9,000 meters out of the 12,000 meters required. The Group remains on track for its delivery milestones in both regions. These trials are part of Anglian Water's plans for a long-term smart metering programme.

### *4G rollout*

The four Mobile Network Operators ('MNOs') continue to increase their 4G network coverage and Arqiva has been undertaking large volumes of antenna and feeder upgrade projects to facilitate this. The Group had completed 7,585 4G equipment upgrades across Arqiva sites up to 31<sup>st</sup> December 2017 since rollout began in 2014. Installation Services supports the Group's towers business where activity has been ramping up as the MNOs leverage Arqiva's estate and capability to help them achieve their 4G coverage requirements.

### Other

#### *Management changes*

During the period Arqiva appointed Jeremy Mavor as Group General Counsel and David Crawford as Managing Director of the Telecoms & M2M business unit. Jeremy and David replace Michael Giles and Nicolas Ott respectively, who have decided to step down from their positions after a number of years of distinguished service. The Board thanks them for their contributions and wishes them well for the future.

Jeremy moves to the General Counsel role from his position as Head of Legal for finance and corporate matters. David Crawford will move from his post as Director of Satellite & Media and formally assume his new role from 1 April 2018. Alex Pannell (previously Commercial Director, Satellite and Media) will take up the leadership of the Satellite & Media business unit on an interim basis.

#### *Credit ratings update*

Ratings for both the senior (BBB: Fitch/S&P) and junior debt (B-/B3: Fitch/Moodys) have been affirmed by all respective rating agencies during the half year period. Most recently S&P completed their affirmation in December 2017 and Fitch revised their outlook from negative to stable at both senior and junior levels in July 2017.

#### *Shareholder strategic review*

In October 2017, Arqiva announced its intention to proceed with an initial public offering ("IPO"). Owing to unfavourable IPO market conditions, the Board and Arqiva's shareholders agreed that proceeding with the transaction was no longer in the best interests of the Company, and in November 2017, decided to postpone the IPO.

Arqiva's shareholders remain motivated by ensuring the company's best interests and continue to consider their options at this time.

## **Maintenance Capex Expenditure**

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totaled £11.5m (up from £9.6m in the prior year period) and principally included significant IT upgrades and structural projects such as mast strengthening.

## **Growth Capex Expenditure**

Contracted growth spend is capital expenditure that is incurred to deliver revenues which is supported by a signed customer contract. This totalled £74.9m compared with the prior year period of £59.9m with the period on period increase primarily due increased expenditure in significant capital projects including 700MHz clearance and the Group's smart energy metering contract. Non-contracted growth is capital expenditure that is incurred to deliver revenues and which is supported by a business case but on which there is no signed customer contract at the time at which it is incurred and reported. In the current period this totalled £2.0m compared with the prior year period of £3.2m.

## **Financing**

### Off-Balance Sheet Arrangements

The Group does not, and has not used off-balance sheet special purpose vehicles or similar financing arrangements on an historical basis. In addition, the Group has not had and does not have off-balance sheet arrangements with any of its affiliates.

The Group uses interest rate swaps ('IRS'), Inflation Linked Swaps ('ILS') and cross-currency swaps to reduce its exposure to fluctuations in variable interest rates on its debt and currency movements on its US dollar debt. Receipts, payments and accreting liabilities on interest rate and inflation swaps are recognised on an accruals basis, over the life of the instrument, as part of the carrying value of the instrument.

Amounts received and paid under the swaps are shown at net value under financing costs, where they are part of the same legal agreement and settled at net value in practice. Accreting liabilities on ILS are incorporated into the fair value measurement of the instrument.

The Group also utilises forward contracts to hedge certain trade-related foreign currency transactions, however there were no trades in place at the reporting date.

The fair value is calculated using a credit risk-adjusted discount rate and therefore incorporates a debit valuation adjustment (or credit valuation adjustment) as required. The changes in the fair value of such derivatives are recognised within the income statement as an 'other gain or loss'.

### Inflation linked swaps

£1,312.5m of fixed rate debt is hedged via three classes of ILS which either directly or via overlay swaps, fix interest and cause it to be indexed to RPI. These swaps have been structured such that the accretion is paid down annually. Only one small tranche of these swaps has a mandatory break clause in 2023, whilst the remaining tranches are break-free.

The maturity date for all three classes of ILS is April 2027.

### Interest rate swaps

£1,023.5m of floating rate debt is now hedged via four tranches of IRS contracted by AF1. These swaps have no break clauses and maturity dates are co-terminus with the underlying floating rate debt instrument's repayment profile.

### Cross Currency Swaps

AF1 has entered into US\$ 358.0m of cross-currency swaps to fix the Sterling cost of future interest and capital repayment obligations relating to the US dollar tranche of the Private Placement at an exchange rate of US\$1.52:£1.

### Swap Options

Following their close-out in November 2016, the Group no longer holds any swap options (2016: £nil).

### Fair value measurement

The credit risk-adjusted fair value of the outstanding swaps at 31 December 2017 is a liability of £1,162.7m (2016: £1,247.8m). This comprises £836.8m in relation to the RPI linked swaps (including principal accretion of £37.8m), £342.7m in relation to the IRS, and a £16.8m asset in relation to the cross currency swaps.

### **Acquisitions and Disposals**

On 26 October 2017, the Group sold its 22.5% shareholding in Arts Alliance Media Investment Limited, a joint venture. The results of the disposal are not material to the Group's financial statements.

### **Ratios**

We confirm that in respect of this investor report dated 22 February, by reference to the most recent financial statements that we are obliged to deliver to you on a semi-annual basis in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) of the Common Terms Agreement:

- (a) Historic Net Debt to EBITDA for the relevant Test Period ending on (and including) 31 December 2017 was 4.77;
- (b) Historic Cashflow ICR for the relevant Test period ending on (and including) 31 December 2017 was 2.76;
- (c) Historic Cashflow DSCR for the relevant Test period ending on (and including) 31 December 2017 was 2.76 (together the **Historic Ratios**);
- (d) Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 31 December 2017 is 4.56;
- (e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2017 is 2.66; and
- (f) Projected Cashflow DSCR for the relevant Test period commencing on (but excluding) 31 December 2017 is 1.97 (together the **Projected Ratios** and together with the Historic Ratios, **the Ratios**).

We confirm that:

- (g) each of the above Ratios has been calculated in respect of the relevant Test Period(s) or Projected Test Period(s) or as at the relevant dates for which it is required to be calculated under the Common Terms Agreement;
- (h) no Ratings Downgrade Event has occurred;
- (i) no Modified Net Debt to EBITDA Ratio Breach has occurred;
- (j) no Default or Trigger Event has occurred and is continuing; and
- (k) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'M. Pardo'.

Director

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower