

## 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 £5.0bn as at 30 June 2018.

*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 streams on the overall 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; is the largest shareholder in SDL, the second national commercial digital radio multiplex; and holds 25 of the UK's 57 local radio licences as at 30 June 2018;
- 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, to meet national coverage obligations stipulated by their spectrum licences;
- 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 48% of fully managed channels as of 30 June 2018; and
- a significant proportion of revenue from long-term contracts enjoys RPI-linked increases.
- access to commercial wireless networks in 14 London boroughs and 4 UK towns and cities with c. 229,000 municipal street furniture sites for the provision of Small Cells in the London Boroughs. 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;

## Historic Business Developments

### Terrestrial Broadcast

#### *Freeview investment to transition to a hybrid platform*

The UK's top broadcast companies have signed a new five-year agreement to accelerate Freeview's transition to a fully hybrid platform, providing the best in free-to-view live and on-demand TV. The collaboration between the BBC, ITV, Channel 4 and Arqiva – the four shareholders of Digital UK – will see an investment of £125 million over the next five years to build on the success of Freeview Play, the UK market leader in free-to-view connected TV.

Alongside the ongoing support for the Freeview platform, new developments will include a mobile application and improvements in content discoverability and navigation. The agreement to invest in developing Freeview as a fully hybrid platform reflects the complementary strength of linear TV and the growth of on-demand viewing.

Since launch in 2015, more than three-and-a-half million Freeview Play products have been sold in the UK from brands including Panasonic, LG, Sony, Sharp, JVC, Hitachi, Toshiba and Humax, accounting for around 60% of smart TV sales. The service gives UK viewers a seamless combination of live and on-demand content all in one place with no monthly subscription.

#### *Digital Platforms channel utilisation*

As at 30 June 2018, the Group had capacity of 31 videostreams on its main multiplexes, all of which were utilised. Ongoing high levels of Multiplex utilisation demonstrates the on-going attractiveness to broadcasters of the Freeview DTT platform.

#### *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, a change that is being adopted across Europe, Africa, the Middle East and central Asia.

The Group is contracted with the major broadcasters and Ofcom 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 remains on track and the Group earns revenues and cashflows as the programme is completed. All Clearance events scheduled to the end of August 2018 have been completed successfully in line with the programme requirements and the programme rollout is planned to continue to May 2020.

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

Arqiva's long term strategy of supporting DAB digital radio take-up continues to show positive results. The UK's official radio listening data, produced by RAJAR, confirms that more than six in ten consumers now have a DAB digital radio. RAJAR figures show that digital listening (across DAB, DTT and IP) now exceeds 50% of all listening. As a result, the UK Government is evaluating its approach towards a

review around the future of radio and a potential process for a switchover from FM to DAB at some future date.

Arqiva's DAB multiplexes show high utilisation levels driven by strong market demand. This has been supported by the launch of an additional channel, Hits Radio from Bauer Media, which has launched across all of Arqiva's Local multiplexes to deliver a network providing quasi-national coverage.

## Telecoms & M2M

### *Arqiva helps MNOs to meet UK coverage obligations*

In March 2018, Ofcom publicly announced that all four MNOs had met all of the coverage obligations they were required to meet by 31 December 2017. Arqiva played a key role in helping the UK MNOs meet these obligations as explicitly recognised by our customers. For the past four years Arqiva undertook large volumes of antenna and feeder upgrade projects for the MNOs as part of Installation Service activities to help them achieve their coverage requirements. The Group had completed 8,245 4G equipment upgrades across Arqiva sites up to 30 June 2018 since rollout began in 2014. With coverage obligations now met and rollout nearing completion, Installation Services activity, which is lower margin compared to site sharing, is reducing in line with rollout plans.

Arqiva will continue to play a key role as new spectrum bands are deployed to meet capacity requirements which will include the rollout of 5G.

### *Small cells*

The Group continues to develop its outdoor small cells proposition with Arqiva hosting MNO owned small cells on fully connected street infrastructure to provide street level network capacity in dense urban locations. The Group has received commercial contracts from two MNOs for localised small cells rollout in some London boroughs. In addition, trials are expected in the near term with the other two MNOs.

Arqiva is fully committed and well-placed to support the UK in its efforts to become 5G ready. In July 2017, Arqiva and Samsung Electronics launched the first field trial of 5G FWA (Fixed Wireless Access) 28GHz technology in the UK and Europe. Furthermore, the Group also acquired an additional 28GHz spectrum licence from intelligent managed services provider, Luminet. The licence for 2x 112MHz covers Central and Greater London and bolsters Arqiva's existing nationwide spectrum band ownership. The 28GHz spectrum band is the standard band used for 5G FWA connectivity trials in the USA, Japan and South Korea. During the financial year, the Group has continued to engage with stakeholders to evaluate opportunities.

### *Smart energy metering rollout*

The Group's smart metering communication network in the North of England and Scotland is live and successfully transmitting and receiving messages between the energy companies, and consumer electricity and gas meters. Early-life support to DCC users with their meter installation pilots continues and these are now progressing into initial customer roll-outs. Arqiva has been supporting the DCC with their preparations ahead of mass roll-out which will commence by the end of 2018. Further rollout of the Arqiva network is on track and currently covers 97.75% of premises in line with requirements.

### *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 service is reliably delivering 6 million meter readings per day with over 307,000 meters installed as at 30 June 2018. Arqiva is close to having full network coverage deployed across the entire Thames Water London region, completion being targeted by the end of 2018.

### *Smart water metering trial contracts – Anglian Water*

Arqiva 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. These trials are part of Anglian Water's plans for a long-term smart metering programme. The Group has successfully created a stable platform to generate data for Anglian's customers and through this they are realising the benefits of both improved leakage detection and consumer engagement. As at 30th June 2018, 17,200 out of the anticipated full complement of 19,500 meters had been installed.

## Satellite and Media

### *UK Direct To Home (DTH) HD channel growth*

In the UK DTH product line, Arqiva continued to see HD channel growth during the financial year. In the financial year to 30 June 2018 Arqiva launched four new HD channels. This further reinforces the Group's position as a leading provider of UKDTH services.

### *Virtualisation and OTT*

Our Satellite and Media customers continue to transition to IP networks and infrastructure to deliver video growth. Arqiva has therefore developed an innovative software defined networking that enables us to deliver highly flexible networks to meet our internal and external customer demands. Our solution delivers video to and from traditional and new IP formats in an automated and dynamic way that also provides scalable opportunities, allowing Arqiva to meet new customer demand with a better experience, underpinned by a more efficient operating model and cost base.

During the financial year, the Group secured its first virtualised services contract with a US broadcaster who has launched a new consumer OTT service to provide core managed teleport and fibre services, along with a highly scalable IP streaming service for hundreds of live sports events each year. With our new virtualised capabilities, we are able to provide a flexible cost model along with a highly automated delivery

Furthermore, Arqiva also secured two new customers on its new cloud based service. These new services will be delivered as part of an overall 'hybrid' solution that include core services from existing portfolio. The use of public cloud services allows Arqiva to provide high levels of service automation and commercial flexibility.

## Other

### *'FutureFit'*

The Group's company-wide transformation programme, 'FutureFit', continues to progress and deliver savings. Through this transformation programme, Arqiva continues to streamline and standardise its processes, modernise IT systems and achieve significant cost efficiencies and savings. The programme covers:

- The streamlining of operational end-to-end processes across the business enabled by a transformation of IT systems to deliver improvements in operational efficiency, eliminate waste and deliver improvements in customer services; and
- Cost reductions in spending on third party suppliers in all areas. The Group is reviewing all areas of spend and progressing with a number of actions; consolidating demand across the Group to ensure best prices, re-negotiating supplier contracts, reducing spare capacity and wherever possible eliminating spend through process optimisation activities.

Great progress has been made to advance these initiatives and deliver significant savings. 'FutureFit' has contributed to EBITDA margin increase from 48.5% in the year ending 30 June 2016 to 53.8% in the year ending 30 June 2018 with further savings targeted for future years. Key developments to date include the elimination of excess satellite transponder capacity; a reduction in leased line costs; property related cost savings and cost efficiencies in a number of overhead costs.

### *Credit ratings update*

Fitch and Moody's affirmed their ratings during the first half of the year. The Group's senior and junior debt continues to be rated at BBB (Fitch/S&P) and B-/B3 (Fitch/Moodys) respectively.

### *Junior refinancing [TO BE INCLUDED ASSUMING WE PROCEED WITH THE ISSUE AND TO BE REFINED BY PR ADVISORS]*

On the back of the strong financial results reports, the Group has today announced its intention to refinance (subject to market conditions) the existing Junior Notes with engagement with investors over the coming period that may lead to a new junior note being issued.

### *Change in Chief Financial Officer (CFO)*

In July 2018, Jane Aikman joined Arqiva as its new CFO, replacing Liliana Solomon. Jane brings extensive experience having held senior executive roles in both private and publicly listed technology

and telecoms infrastructure companies. Most recently, Jane was CFO of KCOM Group, a listed communications services and IT solutions provider. Prior to KCOM Jane was CFO and Chief Operating Officer of Phoenix IT Group, a provider of Business Continuity, IT infrastructure managed services and Partner Services. She has also held CFO positions at Infinis plc, Wilson Bowden plc and Pressac plc. Jane also currently serves as a non-executive director on the board of Morgan Advanced Materials, a UK PLC.

#### *New appointment of Satellite and Media Managing Director*

In June 2018, Arqiva appointed Alex Pannell as Managing Director of the Satellite and Media business unit. Alex had been in this role on an interim basis since April 2018 and prior to that he was Commercial Director in the same business unit. He will be responsible for developing the strategy of the business unit.

### **Maintenance Capex Expenditure**

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totaled £30.3m (up from £22.5m 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 totaled £121.7m compared with the prior year period of £129.5m with the period on period decrease primarily due to the phasing of spend on the smart energy metering contract partially offset by increases in relation to the 700MHz clearance programme and DAB roll-out. 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 totaled £4.7m compared with the prior year period of £13.2m.

### **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 with RPI. In addition, the principal amount of these swaps

increases with RPI. One class of these swaps with a nominal value of £235.0m has a mandatory break clause in 2023, whilst the remaining two classes 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.

#### Fair value measurement

The credit risk-adjusted fair value of these derivatives at 30 June 2018 is a liability of £1,030.8m which comprises £755.1m in relation to the RPI linked swaps, £297.7m in relation to the IRS and a £22.0m asset in relation to the cross currency swaps (2017: total £1,179.7m).

#### Acquisitions and Disposals of subsidiaries

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**

1. We confirm that in respect of this investor report dated 11 September, 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) 30 June 2018 was 4.42;
  - (b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2018 was 2.78;
  - (c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2018 was 2.58 (together with (a) and (b) above, the **Historic Ratios**);
  - (d) Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 30 June is 4.33;
  - (e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June is 2.84; and
  - (f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June is 1.95 (together with (d) and (e) above, the **Projected Ratios**).

2. We confirm that:

- (a) 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;\*
- (b) no Ratings Downgrade Event has occurred;
- (c) no Modified Net Debt to EBITDA Ratio Breach has occurred;\*
- (d) no Default or Trigger Event has occurred and is continuing; and
- (e) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,



\_\_\_\_\_  
[Director/CFO]

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower

\_\_\_\_\_  
\* Include for Compliance Certificate only and only for so long as Facility A and/or Facility B are outstanding.

