

## 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 March 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, 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 March 2018; and
- a significant proportion of revenue from long-term contracts enjoys automatic RPI-linked increases.

## **Historic Business Developments**

### *Terrestrial Broadcast*

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

As at 31 March 2018, the Group had completed the delivery of the Commercial Local DAB expansion programme. In total, Arqiva delivered new transmitters at 221 sites 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. Arqiva's DAB multiplexes show high utilisation levels driven by strong market demand as demonstrated by the launch of an additional national channel on the SDL DAB multiplex in January 2018.

#### *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 scheduled to the end of April 2018 have been completed successfully in line with the programme requirements and the programme rollout will continue 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 long term 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 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. Arqiva has been supporting the DCC with their preparations ahead of mass roll-out which will commence by the end of 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 282,000

meters installed, an increase of circa 27,000 since the previous financial report. 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 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. As at 31 March 2018, 16,600 out of the 19,500 meters had been installed. The Group has successfully created a stable platform to generate data for Anglian's customers and remains on track for its delivery milestones in both regions.

#### *4G rollout*

The four Mobile Network Operators ('MNOs') continue to enhance their 4G network coverage. For the past 4 years Arqiva has been undertaking large volumes of antenna and feeder upgrade projects as part of Installation Service activities to help the MNOs achieve their 4G coverage requirements. The Group had completed 7,933 4G equipment upgrades across Arqiva sites up to 31<sup>st</sup> March 2018 since rollout began in 2014. Installation Services activity, which is lower margin compared to site sharing, is reducing in line with rollout plans.

#### Satellite and Media

##### *IMG*

In April 2018, Arqiva announced a long-term deal with IMG, a global leader in sports, events, media and fashion broadcasting, to deliver two live sports playout channels in Singapore.

The deal will also see Arqiva provide IMG with additional occasional use (OU) support for global sporting events throughout 2018, including the A-League Football and National Rugby League in Australia, and the US Major Soccer League. Building on an existing 10-year relationship with IMG, Arqiva aims to aid IMG's ambitious growth goals, with scope to support future rights deals with additional playout and OU capabilities over the course of the contract. Arqiva will deploy an integrated solution, combining live sports presentation and remote editing functionality.

#### **Maintenance Capex Expenditure**

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totalled £18.5m (up from £13.5m 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 totalled £104.2m compared with the prior year period of £91.7m 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 £2.6m 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 March 2018 is a liability of £1,144.1m. This comprises £822.2m in relation to the RPI linked swaps (including principal accretion of £57.3m), £327.4m in relation to the IRS, and a £5.5m asset in relation to the cross currency swaps (2017: liability of £1,289.0m).

### **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.

Yours faithfully,



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Director

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower