

INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED

SCHEDULE 7

Six month period ending 31 December 2018

Date: 21 February 2019

SCHEDULE 7

FORM OF INVESTOR REPORT/QUARTERLY 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 earnings, supported by strong market positions, diverse revenue streams, long-life assets and long-term inflation linked contracts.

Recent developments since 30 September 2018

Terrestrial Broadcast and Satellite and Media

As part of the Group's strategy to focus on the core markets and the implementation of its transformation programme to improve customer service and efficiencies, the Group is working to consolidate its Terrestrial Broadcast and Satellite & Media business units. These plans are being developed and progressed with the expectation of a new consolidated business unit created in the new financial year.

Additionally, the Group has reviewed its activities in these areas and will reduce its focus in the Playout and Occasional Use businesses. Both are relatively subscale with minimal contribution to the Group's overall earnings or cashflow. The Group will continue to support its existing playout customers over the remainder of their existing contracts but expects to be fully exited from this business line over the next couple of years subject to customer agreement. The Group's Occasional Use business will be refocussed to providing managed services including content acquisition, contribution and distribution (including OTT and VOD) and will move away from the uplinking and distribution of live events via satellite.

700 MHz Clearance and DTT spectrum

The 700 MHz Clearance project, which clears the 700MHz band (694 MHz to 790 MHz) of DTT use so that it can be auctioned by Ofcom and used for mobile data remains on track, with the overall programme expected to complete by late 2021. The Group continues to earn revenues and cashflows, which are expected to reduce beyond the current financial year, in line with the programme as delivery milestones are successfully complete. At 31 December 2018, 47% of Clearance events had been successfully completed. TV and radio services have been successfully transitioned from the existing permanent antennas at the key Emley Moor transmitter station in Yorkshire, to a temporary mast to allow replacement of the permanent antenna. Emley Moor has the only temporary mast to be built as part of the programme, which at 310 metres will be one of the tallest structures in the UK whilst it is in place.

Digital Platforms channel utilisation

The Group continues to see high utilisation of its DTT multiplexes reflecting strong demand for the Freeview platform. As at 31 December 2018, the Group had capacity of 31 videostreams on its main (DVB-T) multiplexes, all of which were utilised.

Freeview mobile app

Digital UK and Freeview launched a mobile app on 22nd January which acts as a supporting service to access and showcase the range of content available on Freeview. It will support viewing outside of the home and on mobiles and tablets with streaming of live shows from Freeview channels and access to on demand content. Arqiva's Connect TV unit developed the application for Digital UK. This is part of Freeview's strategy to keep the platform modern and relevant.

Digital radio (DAB)

Arqiva's DAB multiplexes are fully utilised driven by strong market demand and ongoing investment by commercial radio broadcasters in this market. At the end of December 2018, the Sound Digital multiplex reached 100% utilisation following the launch of two Virgin Radio stations. This multiplex was launched in

March 2016 and the attractiveness of DAB is demonstrated by capacity being fully sold since its launch. Furthermore, in the quarter ending December 2018 an additional 19 transmitters were switched on for the Sound Digital network, increasing its UK population coverage from 77% to 83%. Arqiva's other multiplex (Digital One) also remains fully utilised.

Telecoms & M2M

Sale of In-Building Solutions

The Group disposed of its In-Building Solutions (IBS) portfolio to Wireless Infrastructure Group (WIG). The disposal was part of Arqiva's focus on developing its core business of providing shared outdoor infrastructure and connectivity solutions to the Mobile Network Operators.

Small cells and pilot network

In December 2018, Arqiva and CityFibre revealed details of the UK's largest pilot of wholesale, 5G-ready small cell infrastructure.

The pilot project in the London Borough of Hammersmith & Fulham is creating a 15km high density fibre network, which provides the bandwidth for mobile network operators (MNOs) to explore advanced technology including 5G. The fibre network, will provide MNOs the ability to deploy small cells quickly and easily to connect businesses and residents to the ultra-fast 5G network.

Major customer contract

Our current contract with one of our major MNO customers is due to end on 31 December 2019. Negotiations to define our ongoing commercial relationship past this date, are proceeding.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland has been live since November 2016.

The Arqiva network now covers 98% of premises, is planned to reach 99.25% by spring 2019 and then final coverage of 99.5% by summer 2020. DCC are also continuing to request support for change requests that reflect new industry requirements, but we expect these to reduce beyond the current financial year.

Separately, an industry wide upgrade to provide functionality required to extend connectivity to up to 95% of smart meters in consumers' premises was successfully completed in October 2018. The Group continues to support the preparations of the DCC and their users ahead of mass roll-out of SMETS2 meters which is expected during the first half of 2019.

Smart water metering rollout – Thames Water

Since April 2015, Arqiva has developed a smart metering network that enables the collection, management and transfer of metering data for Thames Water. As at 31 December 2018, the network comprised 97 sites out of the 107 required for full network across the entire Thames Water London region, with completion expected during spring 2019. There were over 357,000 meters installed to date and 7 million meter readings being delivered per day.

Smart water metering trial contracts – Anglian Water

Since June 2016, Arqiva has been operating smart water metering trials for Anglian Water in two of their regions. These trials are part of Anglian Water's strategy for a long-term smart metering programme. As at 31 December 2018, over 17,500 meters were operational under these trials. The delivery of our network has enabled Anglian to realise the significant benefits of improved leakage detection and consumer engagement whilst also informing their forward-looking business plans.

Capital Expenditure

During the six months to 31 December, the Group incurred the following capital expenditure:

£m	6 months ended 31 December		
	2018	2017	Change
Growth Capex - contracted	49.9	74.9	(25.0)
Growth Capex - non contracted	2.3	2.0	0.3
Maintenance Capex	13.9	11.5	2.4
Subtotal capital expenditure	66.1	88.4	(22.3)
Capital creditors/accruals	11.7	(3.0)	14.7
Net capital expenditure	77.8	85.4	(7.6)

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering. The decrease in expenditure during the six month period to 31 December 2018 compared to the prior year period reflects the phasing of works associated with these projects. 700 MHz Clearance capex peaked in the prior year and is expected to reduce as the project nears completion around 2021. Smart energy metering change requests were lower, are directly linked to DCC requirements and are often of a variable scale in any given period.

Non contracted growth capex at £2.3m was broadly consistent with the prior year period.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The increase compared to the prior year period was mainly due to the greater level of routine structural maintenance undertaken given the favourable weather conditions during this summer, as well as the progress the Group is making on its transformation programme.

Financing

In October 2018, the Group completed the refinancing of its 9.5% Junior Notes due Mar-20 by establishing a new 6.75% Junior Note due Sep-23 that results in lower financing costs for the Group. Alongside this refinancing, the Group has also established a bank liquidity facility that replaces a previous obligation to maintain a cash deposit equivalent to 6 months of interest which will also contribute to financing cost savings as cash carrying costs are minimised.

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B2 (Fitch/Moody's).

Acquisitions and Disposals

On 23 October 2018 the Group sold its assets and contracts for In-Building Solutions which had been identified as non-core business.

Ratios

We confirm that in respect of this investor report dated 21 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 2018 was 4.37;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2018 was 2.84;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2018 was 2.11 (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) 31 December 2018 is 4.52;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2018 is 2.61; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2018 is 1.79 (together with (d) and (e) above, the **Projected Ratios**).

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.

Current Hedging Position

We remain in compliance with hedging covenants.

Yours faithfully,

A handwritten signature in black ink, consisting of a large, stylized initial 'M' followed by a series of loops and a horizontal line, positioned above a horizontal line.

[Director/CFO]

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower

