Arqiva is the UK’s national provider of essential terrestrial television, radio broadcast and mobile infrastructure as well as a key provider of communications services to major distributors of satellite content, media, wireless voice and data services in the UK, including machine-to-machine (’M2M’) connectivity. The Group’s core towers business (comprising terrestrial broadcast and wireless site share infrastructure) generates predictable operating profits (which management estimates constituted circa two-thirds of the Group’s gross profits for the year ended 30 June 2015), supported by strong market positions, diverse revenue streams, long-life assets and a significant proportion of revenues coming from long term contracts.

The Group has the following key competitive positions:

- 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. The Group owns and operates all the television transmission towers 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;

- regulated position as the leading UK national provider of NA and MTS for radio broadcasting and provider of MTS for over 90% of the analogue and DAB digital radio transmission market in the UK. Arqiva is also the operator of both national commercial digital radio multiplexes and holds 25 out of the 55 local radio licences as at 31 March 2016;

- largest independent provider of wireless tower sites in the UK with prominence in rural and suburban areas, which are licensed to Mobile Network Operators (’MNOs’) and other wireless network operators, operating over 8,000 sites as at 31 March 2016. Also a provider of installation services and 4G upgrade and rollout. Arqiva’s active site portfolio is central for MNOs to meet their national coverage obligations;

- the leading position for providing neutral host In-Building Solutions. In addition, the Group has access to over 300,000 street municipal furniture sites for the provision of Small Cells in London and key major UK cities;

- a leading provider of smart metering and M2M communications. Contracts include: smart metering communication services in Northern England and Scotland for electricity and gas to approximately 9.3 million premises, a partnership deal with SIGFOX for the rollout of an Internet of Things (’IoT’) network covering ten of the UK’s largest cities and smart water metering network for Thames Water that is expected to cover 3 million homes once fully deployed;

- largest owner of independent satellite uplink infrastructure and satellite distribution services in the UK. The Group has over 40% market share in terms of the number of transponders accessed from its uplink infrastructure as at 31 March 2016 and it serves as an alternative to Sky’s own uplinking services;
• one of the largest providers of WiFi in the UK with circa 32,000 deployed access points, providing WiFi services in 35 airports and 11 London boroughs;

• market leader for commercial spectrum used for the transmission of DTT, owning two of the main national commercial Multiplexes (there are three Public Service Broadcaster and three commercial DTT Multiplexes in the UK). 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 which have a minimum licence duration until the end of December 2018. 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 supply of commercial channels; and

• a significant proportion of revenue from long-term contracts have automatic RPI-linked increases.

Historic business developments

Transformation Programme and continuous improvement

Further to the organisational structure changes reported previously, Arqiva continues to deliver operating cost savings. As at 31 March 2016, the Group had achieved an annualised run rate saving of over £30m in operating expenses compared with our July 2015 baseline on a like for like basis before growth projects. Arqiva has begun the process of embedding continuous improvement and ongoing efficiency initiatives into its organisational culture and expects these to deliver significant further savings in future years.

4G rollout

The four main Mobile Network Operators (‘MNOs’) continue to increase their 4G network capability. In turn, Arqiva is being contracted to carry out a large volume of antenna and feeder upgrade projects for its customers, resulting in a significant increase in Installation Services revenues (which carry a lower gross margin than the other core towers business areas). The Group completed circa 2,750 4G upgrades across Arqiva-managed sites up to 31 March 2016 and a further circa 5,250 upgrades over the next 2-3 years have been requested by the MNOs.

Small cells opportunities and in-building solutions

Arqiva has been developing its outdoor Small Cells proposition using low power base stations to provide street level network capacity to MNOs, particularly in dense urban areas. The Group is currently completing trials with two MNOs in Hammersmith & Fulham. In addition, Arqiva has now secured its first commercial orders from a MNO. Assessment and planning activity for these have commenced and the Group expects the deployment to occur later in 2016.

In January 2016, the Group deployed in-building systems for Canary Wharf Group’s retail centres at Canada Place, Crossrail Place, and Jubilee Place in Canary Wharf, London. The in-building systems provide 4G coverage that complement the existing 2G and 3G coverage at those locations. Arqiva deployed a future-proof solution which is designed to ensure a mobile signal is available when underground, in large buildings, or where there is heavy footfall. Commuters and shoppers will be able to receive 4G in the retail centres via their service providers. The technology will allow all MNOs to provide their mobile services through one set of transmission equipment.

Smart energy metering rollout

Arqiva is building a smart metering communication network as part of a 15-year contract signed in September 2013 with the Data and Communications Company (the ‘DCC’, a body licensed by statute and backed by the utility companies).

The Group is in the Systems Integration Testing phase as part of preparations to go live during 2016. The Arqiva network is now communicating end to end with the DCC solution, successfully transmitting and receiving service user requests through to meters. In March 2016, Arqiva’s Order Management
System went live which enables energy suppliers to submit their orders for the communication hubs, monitor the status of those orders as they progress through the manufacturing process, revise the delivery dates, and accept or reject the deliveries.

Arqiva has achieved all contractual milestones required to date. The rollout of the network now exceeds the 80% required by the time the DCC service is operationally live later in 2016. The Group is now earning recurring revenues under the contract, relating to both network availability charges and set-up charges. Furthermore, we expect to earn additional revenues from change requests that will increase the scope of the overall contract. A number of change requests are currently being negotiated.

**Smart water metering rollout**
In March 2015, Arqiva signed a smart water metering contract with Thames Water following a competitive bidding process. The contract is for the provision of smart metering fixed network infrastructure and associated water meters that enables the collection, management and transfer of metering data. The contract is for an initial six year term that is extendable up to a total of sixteen years. The service is expected to cover 3 million homes once fully deployed.

The Group has completed two major programme implementation phases, comprising 17 contractual milestones and the service is now launched. To date, we have received additional purchase orders from Thames Water expanding the network coverage by 28 sites and over 40,000 meters have been installed.

**Internet of Things (IoT)**
In January 2016, Arqiva and Vision360 were jointly selected as providers to one of two NHS England IoT Innovation Test Beds. The Test Bed will help people living with dementia or frailty remain in their own homes for longer with the aid of network-enabled sensors, wearable technology, monitors and other devices to monitor their health at home. Arqiva and Vision360 are working to deliver a national standards-based assistive care IoT platform, which combines Vision360's health and assistive care technology and Arqiva’s SIGFOX IoT network.

In March 2016, the Group announced a new partnership with M2M solutions provider Wireless Logic. The partnership will see Wireless Logic become Arqiva’s first UK reseller of SIGFOX low power, wide area connectivity, representing another step in the Group’s journey of growing the IoT business. Arqiva and Wireless Logic will work together to introduce SIGFOX connectivity and solutions to Wireless Logic’s extensive customer base.

These deals give Arqiva the opportunity to showcase how its SIGFOX network can complement other technologies and give access to technology to those currently excluded. The Group continues to run proof of concept trials with a number of other potential customers.

**Nationwide Building Society WiFi rollout completed**
In March 2015, the Group won a 5 year contract to provide WiFi services to Nationwide Building Society that will cover both public and enterprise WiFi (i.e. customer and business use). In March 2016 the Group announced the successful completion of the WiFi service installation for the building society’s high street branch network of around 700 branches, 16 administration centres and two data centres in the UK.

**Mobile Infrastructure Project update**
The Mobile Infrastructure Project (‘MIP’) was a strategic programme funded by the Government with the ultimate goal of providing a service to areas without any mobile coverage services (‘not-spots’).

Arqiva was awarded the contract in May 2013 by the Department of Culture and Media and Sport (‘DCMS’) to provide mobile network planning and to build mobile mast infrastructure with cellular and backhaul transmission capability for the MNOs to be able to deliver mobile services to rural communities.
Following the government’s decision to end the project, the Culture Secretary publicly stated that the project would deliver over 50 masts. When the build phase of the project completed in March 2016, 75 masts had been built, exceeding expectations. Many sites are already providing coverage and the latest 4G services to local communities and the MNOs are now working to bring the remaining sites on-air. When all sites are on-air the 75 masts will provide coverage to over 7,000 premises. With build responsibilities now substantially complete, Arqiva is supervising the concluding MNO activities and performance tests to complete the programme.

**DTT Multiplex utilisation**

As at 31 March 2016, all 30 streams on Arqiva’s two main DVB-T Multiplexes were fully utilised following new contract wins including Sony, UKTV and QVC. High Multiplex utilisation and a strong period of sales with high quality customers demonstrate 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. Plans are being implemented by Ofcom and industry stakeholders to clear 700MHz (694 MHz to 790 MHz) so that the spectrum can be auctioned for use by the mobile network providers. This is a change that will be adopted across Europe, Africa, Middle East and central Asia. A wide range of activities are underway to plan for the move in frequencies, including determining changes to the frequencies used, planning for infrastructure changes and work requirements and agreeing a rollout plan. Arqiva continues to gear up for the programme delivery phase and has commenced revenue recognition and billing.

The Group has now entered into a contract with the major broadcasters and Ofcom and has agreed the commercial terms relating to the programme. Arqiva will be responsible for the infrastructure changes, spectrum planning, programme management, network design, service continuity, asset replacement and retuning broadcast transmitters to enable broadcasters to move into a lower frequency. Arqiva will generate cash flows from the programme over the period, 2016 to 2022.

**Digital radio (DAB) rollout**

The Group has been progressing with the delivery of the DAB rollout programme for the BBC, and separately has also completed upgrades to the analogue radio network as part of the contract. The build out of the BBC National DAB network continues and as at 31 March 2016, Arqiva had 144 new transmitters on air increasing the BBC’s UK DAB network coverage beyond 97% of the population. The rollout programme is expected to complete in autumn 2016.

The Group has also been progressing with the delivery of Commercial local DAB. The programme is part of an initiative to meet the local DAB coverage threshold of 90% as set by the UK Government in 2010. The 90% threshold was part of three overall criteria to judge when a process to set a date for a full national digital radio switchover can be established. This contract requires Arqiva to deliver new transmitters or upgrades at 231 sites and as at 31 March 2016, work had been completed at 94 sites with the project due to be completed on schedule by October 2016.

Following award of the second national DAB licence in March 2015 to Sound Digital (a consortium which includes Arqiva (40%)), construction by the Group of the transmission network was completed ahead of schedule. The network was officially launched by the UK’s Secretary of State for Culture, Media and Sport at an event in London on 1 March 2016. Contracts have been agreed with 18 radio stations wishing to launch further radio services on the new national DAB multiplex utilising 98% of the available capacity.

**Satellite and Media contract wins**

In March 2016, Arqiva was selected by Al Jazeera Media Network (AJMN) to provide its global teleport and satellite distribution services. Over the course of a long-term agreement, the Group will distribute AJMN’s flagship news channels Al Jazeera Arabic and Al Jazeera English to popular global networks. The new agreement will allow Al Jazeera to offer its international audience a better viewing experience as the bit rate and video quality will increase. Viewers will also be able to enjoy the improved network resilience thanks to the use of dual and triplicate redundancy on key components of the core fibre, satellite and teleport design. The contract gives the Group the opportunity to develop further growth in the Middle East region.
In May 2016, the Group won a 3 year contract with IMG to provide satellite broadcast services of the Premier League football. The Premier League is the worlds most watched league and attracts global TV audiences of circa 4.7bn. Arqiva will be responsible for broadcasting the Premier League football matches into Asia, Americas, Europe and the Middle East by using its global satellite and distribution network.

Change in Chief Financial Officer (CFO)

In April 2016, Arqiva announced that its CFO, Phil Moses, will leave the company at the end of June 2016. Liliana Solomon was appointed as his successor and joined the Arqiva Management Board in May 2016 to ensure a smooth handover. Liliana brings extensive experience in the telecoms industry, having held CEO and CFO roles for Vodafone in Europe; been CFO for Cable & Wireless in UK, Europe, Asia and US; and CFO for T Mobile in the UK. In addition to having accountability for Arqiva’s financial management and operations, Liliana will also lead the procurement function.

Phil will leave Arqiva after five years as CFO having led the Group through its £3bn refinancing and helped deliver strong growth of the orderbook to £6.2bn. This coupled with the cost transformation activities over the past 18 months positions the Group well for revenue and EBITDA growth in the coming years.

Closure of defined benefit pension scheme to future accrual

Following an extensive consultation period and further discussions with BECTU an agreement was reached in January 2016 which closed the defined benefit pension scheme to future accruals on the 31 January 2016.

Financial Reporting Framework

The financial information presented in these condensed consolidated interim financial statements should be read in conjunction with the statutory accounts for the year ended 30 June 2015, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The financial reporting framework applicable to entities preparing financial statements in accordance with legislation, regulation or accounting standards applicable in the UK and the Republic of Ireland for accounting periods beginning on or after 1 January 2015 is FRS 100, ‘Application of Financial Reporting Requirements’.

We expect to change our reporting framework for our 30 June 2016 annual financial statements in accordance with FRS100, including comparative information.
Maintenance Capex Expenditure

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totalled £11.3m and principally included significant IT upgrades. The spend was lower than the prior period (£20.2m) which also included IT upgrades in addition to substantial maintenance costs incurred as part of the development of a number of corporate sites.

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 £106.1m compared with the prior year period of £87.4m with the period on period increase primarily due to the phasing of the spend on the Smart metering north contract 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 totalled £6.9m compared with the prior year period of £8.6m.

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. Changes in the fair value of such derivatives are not required to be recognised under UK GAAP, but are instead disclosed in the notes. 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 recognised on an accruals basis. The Group also utilises forward contracts to hedge certain trade-related foreign currency transactions. The changes in the fair value (at their Mark-to-Market valuation) of such derivatives are not recognised, and the gain or loss on settlement is taken to the profit and loss account.

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

£1,023.2m of variable rate debt is now hedged via four tranches of IRS contracted by ASF and AF1. The ASF IRS (nominal value £353.2m) have mandatory break clauses in 2018 co-terminus with the ASF variable rate bank debt. The IRS held by AF1 (combined notional principal of £670.0m) have maturity dates co-terminus with the Institutional Term Loan (‘ITL’), European Investment Bank (‘EIB’) loan and US Private Placement £300.0m loans.

In July 2014, on raising of the £300.0m floating rate US Private Placement issue, a premium of £100.5m was received by AF1 for entering into replacement IRS and used to fund the whole mark-to-market payment of £100.5m due by ASF at termination of the equivalent IRS.
The restructure of the swaps and transfer from ASF to AF1 resulted in a charge to the profit and loss account, owing to the fact that the termination payment of the relevant ASF ('Finco') hedges was recognised immediately. The premium received for entering into the new IRS in AF1 has been recorded on the balance sheet and is being amortised over the 11.5 year weighted average life of the new IRS. As a result of these transactions a premium on swap issuance of £180.3m (31 March 2015: £196.6m) is recorded within creditors.

Also recorded in creditors is an amount of £22.8m (31 March 2015: £77.5m) reflecting the principal accretion on inflation linked swaps. This amount is calculated on an accruals basis.

The fair value of the interest rate, inflation and cross currency swaps at 31 March 2016 (excluding the principal accretion and the premium on swap issuance), is a liability of £1,106.7m which comprises £845.5m in relation to the RPI linked swaps, £269.1m in relation to the IRS, and a £7.9m asset in relation to the cross currency swaps (31 March 2015: total £1,181.3m). This fair value calculated on a non-risk-adjusted Mark-to-Market basis is not recognised on the balance sheet in accordance with Group accounting policy and UK GAAP accounting standards.

The Group held Swap Options with a total notional principal amount of £353.2m at 31 March 2016 (£410.7m at 31 March 2015). A portion (£57.5m nominal value) of these options expired upon maturity on 29 February 2016. The remaining options are exercisable at maturity on 28 February 2018, and hedge the Group’s exposure for the duration of the IRS to a decline in LIBOR below 1%.

Cross Currency Swaps

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

Acquisitions and Disposals of subsidiaries

In October 2015, the Group signed a contract for the sale to Telent of its Secure Solutions assets and contracts which had been identified as non-core business. The sale was completed successfully in December 2015.

In December 2015, the Group also sold the payphone business acquired in 2012 as part of the Spectrum Interactive business, disposing of its 100% interest in the ordinary share capital of NWP Street Limited, a subsidiary undertaking to Clear Channel.

Total consideration for these disposals was circa £20m.

Yours faithfully,

[Signature]

[Director/CFO]

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower