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

The Group is the UK’s national provider of essential terrestrial television and radio broadcast 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. More recently the Group has won major contracts for Smart networks as demand for machine-to-machine (‘M2M’) connectivity grows. 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 network access (‘NA’) and managed transmission services (‘MTS’) for radio broadcasting and provider of MTS for over 90% of the 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 30 September 2015;

- largest independent provider of wireless tower sites in the UK, which are licensed to Mobile Network Operators (‘MNOs’) and other wireless network operators, with ownership of approximately 25% of the total active licensed macrocell site market as at 30 September 2015. Arqiva’s wireless towers are vital for MNOs to meet their national coverage obligations;

- a leading provider of smart metering and machine-to-machine (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 for Thames Water that will 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 30 September 2015 and it serves as an alternative to Sky’s own uplinking services;
one of the largest providers of WiFi in the UK with circa 30,000 deployed access points, providing WiFi services in 34 airports and 11 London boroughs;

market leader for commercial spectrum used for the transmission of digital terrestrial television (‘DTT’), owning two of the main national commercial Multiplexes out of a total of six national 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 in the DVB-T2 format (for viewing on Freeview HD compatible sets) which has a minimum licence duration until 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 and more limited supply of commercial channels; and

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

Historic business developments

Operating model review and organisational structure changes

The Group has now implemented all of the organisational structure changes previously reported. These include the decentralisation of the Technology function and the residual Group Strategy and Business Development function, as well as the combining of a number of business units. The former Digital Platforms business unit was split between Terrestrial Broadcast and Satellite and Media in July, while in October, the Telecoms and Smart Metering (M2M) business units were combined into ‘Telecoms & M2M’. Arqiva had estimated annual operating cost savings of £25m p.a. which it now expects to exceed. The Group has already achieved a run rate saving of circa £20m p.a. to date.

The Arqiva Management Board now comprises the following members, in addition to the CEO, Simon Beresford-Wylie.

- Phil Moses (Chief Financial Officer)
- Steve Holebrook (Managing Director, Terrestrial Broadcast)
- Nicolas Ott (Managing Director, Telecoms & M2M)
- David Crawford (Managing Director, Satellite and Media)
- Matthew Brearley (Director of People & Organisation)
- Michael Giles (Commercial Director)

This is the first Financial Report under the new, three customer facing business unit structure. Key revenue lines within these business units are discussed separately for clarity (e.g. the DTT multiplex element of the former Digital Platforms division is still discussed separately, but within Terrestrial Broadcast). For ease of year on year comparison, the prior year has also been re-stated on the same basis as the current year.

Sale of Secure Solutions

In October 2015, the Group signed a contract for the sale of its Secure Solutions assets and contracts to telent, a technology services company which provides a wide range of network and communications services across a variety of industries. The decision to sell Secure Solutions followed from the Group’s operating model review which identified business areas that were non-core. telent is a strong match for both our customers who will transfer across, as well as our Secure Solutions employees. The sale is subject to certain conditions precedent which are expected to be fulfilled during the quarter to 31 December 2015.
Smart 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).

The Group has successfully achieved a key milestone in the programme ahead of schedule; it has exited the Pre-Integration Testing (PIT) phase and has entered into the Systems Integration Testing (SIT) phase, where the Arqiva solution becomes integrated and tested with the wider DCC solution, and with electricity and gas meters. Eight contractual milestones have now been achieved and four DCC gate reviews have been passed successfully. The milestone achievement triggers the invoicing of the Network Availability Charge (representing 90% of the contractual Fixed Operational Charges) and the associated revenue recognition from 1 December 2015 is thus now secured. Cash receipts for the contract are expected to be at least £10m greater than its EBITDA in this financial year, resulting in a positive working capital movement for this business area, unwinding some of the previous working capital investment.

The rollout of network coverage is on track to achieve 70% by the end of November 2015 and 80% by the time the DCC service is operationally live in 2016.

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 a six year term that is extendable in periods of one to three years up to a total of 16 years. The service is expected to cover 3 million homes once fully deployed.

The Group is currently working on two key programme phases, including the build of 18 network coverage sites and interfaces to the customer’s systems. The two phases are expected to be completed in November 2015 and March 2016 respectively. Following the receipt of initial purchase orders from Thames Water, the Group is currently contracted to deliver 17 milestones by the end of the second phase and it has delivered six to date. Additional phases are expected to be contracted with Thames Water as the network coverage expands.

Internet of Things (IoT)

In April 2014, Arqiva signed a deal with SIGFOX, a leading international IoT business to build a national IoT network on a staged basis, starting with ten major UK cities, using SIGFOX technology.

As at 30 September 2015, the Group had achieved outdoor network coverage of 80% to 95% in each of the ten major UK cities and other coverage in over 50 towns. In October 2015, Arqiva agreed to partner with Advanced Digital Institute to support the development of its Meds Companion technology product and be a part of a two year project to trial the product. The project will help patients to record their medication regime within their homes and allow healthcare professionals to track the medication status remotely using the SIGFOX network. Meds Companion is being trialled in Bradford and the surrounding areas with a view to launching the solution in other NHS areas in the future. The project gives 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.

WiFi and Small Cells development

In April 2015, the Group signed a five year contract to provide WiFi services to a leading financial institution. Under this contract, which covers both public and corporate WiFi (i.e. customer and business use), Arqiva will provide WiFi services at the institution’s 700 branches, 18 admin centres and two data centres. As at 30 September 2015, the Group had successfully completed rollout in over 95% of the financial institution’s sites. In June 2015, Arqiva also signed a three year contract to
provide wholesale WiFi services to one of the UK’s major providers of fixed broadband. The service will enable their customers to access the majority of Arqiva’s Wholesale WiFi locations via smartphones and other wireless devices. At the end of September 2015, the service had been successfully built and it will be launched publicly early next year alongside a launch of a wider WiFi service. These two deals are part of the Group’s strategy to drive further growth from its WiFi business and strengthen its foothold in these sectors.

Arqiva has also been developing its outdoor Small Cells proposition which is a technology that uses low power base stations to provide street level network capacity to MNOs, particularly in dense urban areas. The Group is currently discussing trial activity with all four UK MNOs, and it is participating in commercial processes to provide a Small Cell managed service role. An initial commercial order has been placed by a UK MNO and we expect further orders to follow from this MNO and others over the next six months.

**Mobile Infrastructure Project update**

The Mobile Infrastructure Project (‘MIP’) is 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. The DCMS intended to invest up to £150m to provide mobile coverage but numerous external challenges have impacted the delivery of the project. The government has decided to end the project in March 2016 with the aim of completing as many sites as possible by then. The Culture Secretary has publicly stated that the project will deliver 40 masts, bringing 4G coverage to premises that previously had no mobile coverage.

**Launch of Freeview Play**

In October 2015, the Freeview brand launched its connected TV service, Freeview Play. Freeview Play combines catch-up TV from the BBC, ITV, Channel 4 and Channel 5, on-demand services and live television, making a wide range of content available to a mass market and giving viewers even more choice in how they access TV programmes on a free-to-air platform. The service is free from subscription and works with all existing broadband services. Freeview Play will be available on new set-top boxes, currently manufactured by Humax and also on Panasonic’s new TVs. Other TV manufacturers are also expected to follow.

Freeview’s DTT service is the biggest TV platform in the UK and is present in over 19 million homes. Arqiva has been fully committed to developing and modernising the platform, and was responsible for building the technical metadata management system for Freeview Play.

**700 MHz clearance**

The DTT platform currently uses spectrum in the 470-790 MHz bands. Plans are being developed by Ofcom and industry stakeholders to clear 700MHz (694 MHz to 790 MHz) to use for mobile data. The Group is currently undertaking a capability assessment for Ofcom to identify the work required to modify the existing DTT network infrastructure to meet the requirements for the 700MHz Clearance. The UK Government has budgeted up to £600m for the total cost of the clearance programme which includes the cost of infrastructure changes, support to consumers where appropriate, and retuning broadcast transmitters to enable broadcasters to move into a lower frequency. Arqiva expects to receive some of this funding to cover the cost of infrastructure changes. The funding framework is under development with the grant funding scheme expected to be available from early 2016. Arqiva is currently in negotiation on the commercial terms with key stakeholders and expects that contracts will be signed by the end of 2015.
**Pension fund**

Arqiva Limited has defined benefit (DB) pension obligations in respect of approximately 280 active employees, 250 deferred members and 370 pensioners. The statutory triennial funding valuation has now been agreed with the Trustee of the Plan, resulting in a deficit of £16.6 million as at 30 June 2014. £4.6m of the deficit has been funded to date during the 2015 calendar year, and the balance will be settled in five annual instalments starting in July 2016.

Arqiva will close the defined benefit pension scheme to future accrual with effect from 31 December 2015 and will transfer members to its existing defined contribution (DC) arrangements. Despite an extensive consultation period with BECTU and Acas, where Arqiva offered substantially enhanced transition payments, BECTU are now balloting affected employees to take industrial action. The Group will put in place necessary plans to mitigate any impact on its services should industrial action go ahead.

**Maintenance Capex Expenditure**

Maintenance capital expenditure of £2.9m comprised of maintenance of site infrastructure and the IT estate in both periods, which was higher in the prior period (£4.4m) due to significant IT upgrades. In the prior year there were also 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 £34.9m compared with the prior year period of £32.2m primarily due to the phasing of the spend on the Smart metering north 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 £1.8m compared with the prior year period of £1.6m.

**Financing**

There were no financing activities undertaken in the quarter to 30 September 2015.

As at 30 September 2015 the outstanding balance on the 2018 term bank facility was £353.5m.

**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 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 £188.6m (30 September 2014: £204.2m) is recorded within creditors.

The fair value of the interest rate, inflation and cross currency swaps at 30 September 2015 (excluding the principal accretion and the premium on swap issuance), is a liability of £1,106.1m which comprises £869.5m in relation to the RPI linked swaps, £232.4m in relation to the IRS, and £4.2m in relation to the cross currency swaps (30 September 2014: total £1,140.2m). This fair value calculated on a 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 £410.7m at 30 September 2015 (£410.7m at 30 September 2014). The options are exercisable at maturity on 29 February 2016 and 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**

For the period ended 30 September 2015, there were no acquisitions and disposals (period ended 30 September 2014: none).

Yours faithfully,

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Signed without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower