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 a leading UK communications infrastructure and media services provider. With significant investments in essential communications infrastructure, the Group is the leading independent telecom towers operator and sole terrestrial broadcast network provider in the UK. The Group’s core towers business (comprising terrestrial broadcast and wireless site share infrastructure) generates predictable operating profits (constituting circa two-thirds of the Group’s gross profits for the year ended 30 June 2016), supported by strong market positions, diverse revenue streams and long-life assets. The Group also has a significant proportion of revenues coming from long-term contracts with a contracted orderbook value of £5.9bn as at 30 June 2016.

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 in terms of platform take-up. 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 of the 56 local radio licences as at 30 September 2016;

- largest independent provider of wireless tower sites in the UK, with particular prominence in rural and suburban areas. These are licensed to Mobile Network Operators (‘MNOs’) and other wireless network operators, operating circa 8,000 sites as at 30 September 2016. In addition Arqiva is a provider of installation services for 4G upgrade and rollout. Arqiva’s active site portfolio is central for MNOs, in order to meet their national coverage obligations;

- a leading position for providing neutral host In-Building Solutions with 47 systems installed in locations including Canary Wharf and Excel London. In addition, the Group has access to significant municipal street furniture sites for the provision of Small Cells in London and 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; smart water metering network for Thames Water that is expected to cover 3 million homes once fully deployed; a trial contract with Anglian Water for smart water metering deployment, and a partnership deal with SIGFOX for the rollout of an Internet of Things (‘IoT’) network covering 10 of the UK’s largest cities and;

- 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 2016 and it serves as an alternative to Sky’s own up-linking services;
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. These licences previously had a minimum duration until at least the end of December 2018 but could be extended to at least April 2020 subject to further discussions between the Group and Ofcom. 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 has automatic RPI-linked increases.

Historic Business Developments

Terrestrial Broadcast

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 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, the Middle East and central Asia. As reported previously, 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 broadcast transmitters to enable broadcasters to move into a lower frequency. Arqiva is still in the programme delivery phase and continues to bill and recognise revenues as we progress with the programme of work. It will generate cash flows from the programme from 2016 to around 2021.

In October 2016, Ofcom announced that it will aim to make the 700 MHz band nationally available for mobile data by the second quarter of 2020. The interim DTT (DVB-T2) multiplexes originally had a minimum licence duration to at least December 2018. As part of an overall solution to securing an earlier date for 700 MHz Clearance, there is scope for the interim DTT (DVB-T2) multiplex licences to run on until at least the end of April 2020 and potentially longer if the spectrum they occupy is not in a position to be used for mobile downlink. Arqiva is engaged in a dialogue with Ofcom around the details of this option.

Digital radio (DAB) rollout

The Group is progressing with the delivery of the DAB rollout programme for the BBC, and upgrades to the analogue radio network as part of the BBC New Radio Agreement. As at 30 September 2016, Arqiva had 153 new transmitters on air reaching the targeted UK DAB network coverage of more than 97% of the population. The final stages for the rollout programme are expected to complete within the next six months.

The Group is also progressing with the delivery of Commercial local DAB. The programme is part of an initiative to meet the local DAB coverage threshold of 90% set by the UK Government in 2010. Arqiva is required to deliver new transmitters or upgrades at 220 sites and as at 30 September 2016 work had been completed at 185 sites. The remainder of the work will be completed in the new calendar year.

Following award of the second national DAB licence in March 2015 to Sound Digital (a consortium including Arqiva (40%)) the network was successfully launched in March 2016. In September 2016 Sound Digital achieved 100% capacity utilisation, just six months after its launch. Furthermore, Sound Digital won the Radio Academy Award for the biggest contribution to the industry over the past year. Separately, the first national DAB multiplex achieved 93% capacity utilisation in the same month following the launch of Capital Radio, one of the UK’s biggest radio brands.
Telecoms & M2M

Disposal of WiFi business to Virgin Media

In September 2016, the Group reached an agreement for the sale of its WiFi business to Virgin Media. The disposal was completed successfully in November 2016. The sale included venue WiFi, wholesale WiFi, WiFi roaming and WiFi media advertising. Arqiva remains focused on growing its small cells and Distributed Antennae Systems (DAS) solutions for both indoor and outdoor. Within the agreement with Virgin Media, Arqiva signed a partnership to provide indoor solutions to Virgin Media Business customers. The two businesses also signed an agreement for the provision of WiFi by Virgin Media into Arqiva existing street concessions. The Group believes that Virgin Media is a strong match for that business, given its extensive experience of the WiFi market and that these new agreements will enable both Virgin Media and Arqiva to leverage their respective strengths to deliver innovative and compelling solutions to customers. As part of the sale, c. 120 employees were transferred following a consultation process.

4G rollout

The four Mobile Network Operators ('MNOs') continue to increase their 4G network coverage. As a result, Arqiva is carrying out large volumes of antenna and feeder upgrade projects, resulting in a significant increase in Installation Services revenues. The Group had completed circa 4,150 4G upgrades across Arqiva-managed sites up to 30 September 2016 since rollout began in 2014. A further circa 3,800 upgrades are in progress or have been requested by the MNOs over the next 18 months.

Smart energy metering rollout

Arqiva is building a secure 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 User Integration Testing phase as part of preparations to go live. The Arqiva network is integrated and tested end to end with the DCC solution and is successfully transmitting and receiving a full range of service user requests through to devices. Functional testing is progressing and the DCC service is anticipated to go live during November 2016 in all regions, subject to completion of final testing.

The rollout of the Arqiva network is at 84% of premises, exceeding the target of 80% for go-live, and Arqiva has achieved all of the contractual milestones required to date. The Group is earning recurring revenues under the contract and additional streams of revenue will be triggered as we approach go-live.

Smart water metering rollout – Thames Water

In March 2015, Arqiva signed 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 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 and the service is live with over 95,000 meters installed to date.

Smart water metering trial contract win – Anglian Water

In July 2016, Arqiva won a contract with Anglian Water for the delivery and monitoring of a smart water metering fixed network trial to facilitate the deployment and operation of 7,500 new water meters. This is a four-year contract and is part of Anglian Water's plans for a long-term smart metering programme. The first phase of coverage network build is nearing completion. The trial is due to go live in December 2016 and Anglian Water has already installed 2,700 smart water meters in readiness.
**Longer-term developments**

**Small cells opportunities and 5G**

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. Trials are underway with two MNOs in Hammersmith & Fulham. In parallel, Arqiva is completing commercial design orders from an MNO with deployment expected in 2017. Further orders are envisaged from the MNOs as part of a rolling deployment of small cells as they look to increase network performance.

**Maintenance Capex Expenditure**

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totaled £5.2m (up from £2.9m 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 £31.8m compared with the prior year period of £34.9m with the period on period decrease primarily due to the phasing of spend on the smart energy metering contract, DAB roll-out and 700 MHz clearance programme. 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 £1.7m compared with the prior year period of £1.8m.

**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**

£1,023.2m of variable rate debt is now hedged via four tranches of IRS contracted by Arqiva Senior Finance Limited (‘ASF’) and Arqiva Financing No1 Limited (‘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 no break clauses and maturity
dates co-terminus with the Institutional Term Loan (‘ITL’), European Investment Bank (‘EIB’) loan and US Private Placement £300.0m loans.

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.

Swap Options
The Group held Swap Options with a total notional principal amount of £353.2m at 30 September 2016 (£410.7m at 30 September 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%.

Fair value measurement
The credit risk-adjusted fair value of these derivatives at 30 September 2016 is a liability of £1,289.4m which comprises £867.7m in relation to the RPI linked swaps, £467.2m in relation to the IRS, a £33.0m asset in relation to the cross currency swaps, and a £12.5m asset in relation to swap options (2015: total £1,187.6m).

Acquisitions and Disposals of subsidiaries
On 7 September 2016 the Group entered an agreement for the sale of Arqiva WiFi Limited, a subsidiary of the Group that forms part of the Telecoms & M2M operating segment. The sale was completed successfully in November 2016. The disposal is in accordance with management’s strategy to disinvest non-core business areas.

Yours faithfully,

[Signature]

[Director/CFO]

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower