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 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. A significant proportion of the Group’s revenues come from long-term inflation-linked contracts. Arqiva has a contracted order-book worth £5.9bn as at 30 June 2016.

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 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. The Group provides NA for 100% of the analogue and DAB digital radio transmission market in the UK and 90% for MTS. Arqiva is also the operator of both national commercial digital radio multiplexes and holds 25 of the UK’s 56 local radio licences as at 31 December 2016;

- largest independent provider of wireless tower sites in the UK, with c. 8,000 active licenced sites (including contractual options) with particular 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 4G 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 licenses;

- a leading position providing neutral host In-Building Solutions, with 47 systems installed in locations including Canary Wharf and Excel London. In addition, the Group has secured 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 including 10 of the UK’s largest cities;

- 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 December 2016 and it serves as an alternative to Sky’s 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 enjoys automatic RPI-linked increases.

Historic Business Developments

**Terrestrial Broadcast**

**DTT Multiplex utilisation**

During the six months to 31 December 2016, Arqiva increased the capacity of its two main DVB-T Multiplexes from 30 to 31 video-streams, all of which are utilised. Ongoing high levels of Multiplex utilisation and a strong period of sales to high quality customers demonstrate the ongoing attractiveness to broadcasters of the Freeview DTT platform.

**Digital radio (DAB) rollout**

The Group is progressing with the delivery of the DAB rollout programme for the BBC, and has completed upgrades to the analogue radio network as part of the BBC New Radio Agreement. As at 31st December 2016, Arqiva had 159 new transmitters on air helping to reach the targeted UK national DAB network coverage of more than 97% of the population. The final stages for the current phase of the rollout programme are expected to be complete by the end of March 2017.

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 and which was achieved by the end of September with the completion of 185 new sites. In total Arqiva is required to deliver new transmitters or upgrades at 220 sites and as at 31 December 2016 work had been completed at 201 sites. The final sites for this phase will be completed by June 2017 taking local DAB coverage to over 91%.

Following the launch of Sound Digital (a consortium including Arqiva (40%)) on the second DAB network in March 2016, the platform remains at 100% capacity utilisation. Furthermore, Sound Digital won the Radio Academy Award for the biggest contribution to the industry over the past year.

**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) 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 has previously reported that it has a contract 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 phase is underway and Arqiva continues to bill and recognise revenues as we progress with the programme of work. The Group 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 until at least December 2018. Ofcom has now published a statement confirming that those licences can be extended to at least May 2020.

**Telecoms & M2M**

**4G rollout**
The four Mobile Network Operators (‘MNOs’) continue to increase their 4G network coverage and Arqiva continues to carry out large volumes of antenna and feeder upgrade projects, resulting in a significant increase in Installation Services revenues. The Group had completed 4,871 4G upgrades across Arqiva-managed sites up to 31 December 2016 since rollout began in 2014. A further circa 3,400 upgrades are in progress or have been requested by the MNOs over the next 15 months.

**Smart energy metering rollout**
Arqiva has been 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 Arqiva entity that won the contract for smart metering is Arqiva Smart Metering Limited (ASML) and this sits outside the senior and junior financing groups. ASML has contracted with Arqiva Limited (which is within the senior financing group) for the provision of the core network, sites and spectrum that will support the delivery of this contract. The procurement and financing of the communications hubs (which allow information to be sent to and from meters inside the property) sits outside the senior and junior financing group.

In November 2016, the DCC Service entered operational service (‘go-live’) in the North of England and Scotland following the completion of integration testing. The Arqiva network is successfully transmitting and receiving messages from DCC users (the energy companies) via the DCC and electricity and gas meters. The rollout of the service to consumers’ homes is expected to commence and accelerate during 2017 following service user testing and the appropriate certification of service user metering devices. The rollout of the Arqiva network continues to evolve in line with our contractual commitments and is currently at 84% of premises in the respective coverage areas.

During the period, the Group’s recurring revenues increased under the contract as additional streams of revenue were triggered on achievement of go-live. Furthermore, Arqiva has signed a change request order with DCC which sets out the further charges to be paid to Arqiva in relation to specification and timing modifications to the programme.

**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 125,000 meters installed to date, an increase of circa 30,000 since the previous financial report.

**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. With the coverage network build complete, the trial went live in December 2016. To date over 5,000 smart water meters have been installed.

**Internet of Things (‘IoT’)**
In December 2016 Arqiva began involvement with the UK Government’s Digital Catapult IoTUK Boost programme, the aim of which is to build an alliance of partners to host and roll out test low power wide-area networks (LPWANs) and experimentation testbeds across the UK. Two of six winning companies announced by Digital Catapult are Advanced Digital Innovation (UK) Ltd and the Science
and Technology Facilities Council’s (STFC) Hartree Centre which will build experimentation testbeds based on Arqiva’s SIGFOX network.

The Digital Catapult’s IoT Boost programme is designed to help businesses and entrepreneurs develop IoT products and services, with IoTUK Boost aiming to tackle barriers to entry in the IoT marketplace across the country.

The programme gives Arqiva the opportunity to showcase how its SIGFOX network can complement other technologies and give access to technology to those currently excluded.

**Disposal of WiFi business**

The disposal of the WiFi business was completed successfully in November 2016. The sale included venue WiFi, wholesale WiFi, WiFi roaming and WiFi media advertising. Within the sales agreement Arqiva signed a partnership to provide indoor coverage solutions to the acquiring company’s customers. c. 120 employees were transferred following a consultation process as part of the sale. Arqiva’s strategy continues to include development of its small cells and Distributed Antennae Systems (DAS) solutions for both indoor and outdoor coverage.

**Longer-term developments**

**Small cells opportunities and 5G**

In December 2016, the National Infrastructure Commission (NIC), a body which provides the UK Government with advice on major long-term infrastructure challenges published their report on 5G and telecommunications. The report advised that the Government must play an active role to ensure that basic services are available widely and city centres must be made 5G ready as quickly as possible. Next generation technologies and networks need to be deployed to meet future demand including densification of small cells in urban areas.

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

Furthermore, in February 2017 Arqiva announced a partnership deal with Samsung to run the first UK 5G field trials. The trial will operate in London for six months from the summer and will use cutting edge products with the aim of showcasing what superfast connectivity will mean for UK business and residents.

Arqiva is fully committed and well-placed to support the UK in its efforts to become 5G ready, working with the MNOs to provide appropriate outdoor network capacity solutions.

**‘FutureFit’**

During the six months to December 2016 the Group launched a company-wide transformation programme called ‘FutureFit’. This programme has a number of aims, including lowering our cost base, aligning the way we work to better reflect market developments, improving the way we serve our customers, and strengthening our ability to deliver complex projects. The programme will drive the following initiatives:

- **Cost reductions in spending on third party suppliers in all areas, with the aim of delivering savings of over £50m per annum by 2020.** The Group is reviewing all areas of third party spend and progressing with a number of actions; consolidating demand across the Group to ensure we always buy at best price, re-negotiating supplier contracts, reducing spare capacity and wherever possible eliminating spend through process optimisation activities; and

- **Review of operational processes across the business, underpinned by a transformation of IT systems, to deliver improvements in operational efficiency, eliminate waste and deliver improvements in customer services.**
Refinancing

In November 2016 the Group successfully completed the refinancing of its existing bank facilities which included a £353.5m bank term loan; capital expenditure and working capital facilities, all of which were due to mature in February 2018; and the Group’s liquidity facility. The Group extended the maturity of its facilities and simplified its financing arrangements by establishing the following:

- a £218.5m amortising, sterling denominated, floating rate, US private placement with a final maturity of December 2029;
- a £255m amortising term bank facility with an expected maturity of June 2020 and a legal final maturity of December 2024 (of which £25m principal was repaid in the current period);
- a £250m bank facility for capital expenditure purposes having an expected maturity of March 2021 (undrawn at December 2016);
- a £140m bank facility for working capital purposes having an expected maturity of March 2021 (£23m drawn as at December 2016); and
- a £250m liquidity facility that replaces the existing liquidity facility and which is a typical requirement for securitisation structures (undrawn as at December 2016).

In line with the financings that have taken place since 2013, Arqiva restructured the interest rate swaps linked to the £353.5m bank term loan to remove the breaks and match the profile of the new debt instruments above.

S&P and Fitch confirmed their rating of Arqiva’s senior debt at BBB following the establishment of these new facilities.

Maintenance Capex Expenditure

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totaled £9.6m (up from £9.0m 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 £59.9m compared with the prior year period of £69.4m 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 £3.2m compared with the prior year period of £3.7m.

Financing

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’) and Inflation Linked Swaps (‘ILS’) to hedge its exposure to movements in interest rates and inflation and cross-currency swaps to reduce its exposure to fluctuations in floating 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, as part of the carrying value of the instrument over its full life, which correlates to the life of the instrument it is designed to hedge.

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 of derivatives 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 (‘ILS’)**

£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 (‘IRS’)**

£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 (31 December 2015: £410.7m notional principal; 30 June 2016: £353.2m notional principal).

**Fair value measurement**

The credit risk-adjusted fair value of the outstanding swaps at 31 December 2016 is a liability of £1,247.8m. This comprises £907.7m in relation to the RPI linked swaps (including principal accretion of £24.7m (2015: £16.3m)), £383.7m in relation to the IRS, and a £43.6m asset in relation to the cross currency swaps (2015: total £1,135.6m including £3.8m in relation to Swap Options).

**Acquisitions and Disposals of subsidiaries**

On 1 November 2016 the Group sold its 100% interest in the ordinary share capital of Arqiva WiFi Limited, a subsidiary undertaking that forms part of the Telecoms & M2M operating segment. Total consideration received for the disposal was £25.0m (£23.6m net of disposal costs).

**Ratios**

We confirm that in respect of this investor report dated 23 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 2016 was 5.51;

(b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2016 was 2.36;

(c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2016 was 2.36 (together the **Historic Ratios**);
(d) Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 31 December 2016 is 5.10

(e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2016 is 2.53; and

(f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2016 is 2.53 (together the Projected Ratios and together with the Historic Ratios, the Ratios).

We confirm that:

(g) 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;

(h) no Ratings Downgrade Event has occurred;

(i) no Modified Net Debt to EBITDA Ratio Breach has occurred;

(j) no Default or Trigger Event has occurred and is continuing; and

(k) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

[Signature]

Title: CFO

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower