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 had 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 March 2017;

- largest independent provider of wireless tower sites in the UK, with c. 8,000 active licensed 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 licences;

- access to over 300,000 municipal street furniture sites for the provision of Small Cells in 12 London boroughs and 3 UK cities including Manchester, Medway and Southampton. The Group also has a leading position in providing neutral host In-Building Solutions and Distributed Antenna Systems (DAS), with 47 systems installed in locations including Canary Wharf, Selfridges and Bluewater;

- 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;
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. 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;

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 2017 and it serves as an alternative to Sky’s up-linking services; and

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

Historic Business Developments

Terrestrial Broadcast

Freeview Play TVs and set top boxes surpass one million mark

In the UK, DTT is broadcast primarily under the Freeview brand name. In March 2017 Freeview announced that sales of Freeview Play TVs and set-top boxes had surpassed the one million mark. The Freeview Play service was launched in late 2015 and provides consumers with a seamless combination of DTT channels plus catch-up and on demand content with no monthly subscription. Arqiva was responsible for developing the technical solution that is at the heart of the Freeview Play service. The achievement of this one million mark is a strong indication of the attractiveness of hybrid DTT / IP TV services in the UK where DTT remains the underlying delivery mechanism that has a core free-to-air linear content base with a variety of OTT services on-top.

As at 31 March 2017 Arqiva's two main DVB-T Multiplexes had 31 video streams, all of which are utilised. Ongoing high levels of Multiplex utilisation demonstrates 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 31 March 2017, Arqiva had built 161 new transmitters for the BBC since rollout began to reach the targeted UK national DAB network coverage of more than 97% of the population. The final two sites of the 163 required to deliver the current phase of the rollout programme are expected to be complete by the end of June 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 2016 with the completion of 185 new sites. In total Arqiva is delivering new transmitters or upgrades at 221 sites and as at 31 March 2017 work had been completed at 208 sites. The final sites for this phase will be completed during summer 2017 taking local DAB coverage to over 91%.

Arqiva’s DAB Multiplexes have continued to show high utilisation levels due to strong demand for radio services and radio listening in the UK.

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 is contracted with the major broadcasters and Ofcom for the delivery of the programme. The 700 MHz Clearance programme has been a strong driver of revenue growth in the Terrestrial Broadcast business during this financial year. 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 continues and Arqiva continues to bill and recognise revenues as we progress with the programme of work. The programme remains on schedule.

**Telecoms & M2M**

**Small cells opportunities, 5G and Internet of Things (‘IoT’)**

In March 2017, the UK Government released its “A 5G Strategy for the UK” document which further supported the views of the National Infrastructure Commission report of December referenced in our last financial report. The strategy lays out the ambition and actions required by the Government to create an environment that positions the UK as a “global leader in the next generation of mobile technologies and digital communications”. The report further states that to deliver the high speed, high capacity capabilities of 5G will likely require a significant number of small cells to be deployed.

In February 2017 Arqiva announced a partnership deal with Samsung to run the first UK 5G field trials using Fixed Wireless Access in the 28 GHz spectrum owned by the Group. The trial has also been noted in the March 2017 Government document above as an example of a project to help build the case for 5G networks. The trial will operate in London over the summer where Arqiva will showcase its solution and demonstrate what superfast connectivity will mean for UK business and residents.

The Group has also been actively developing its outdoor small cells proposition. Arqiva’s solution uses low power base stations to provide street level network capacity to MNOs, particularly in dense urban areas. The Group expects to receive commercial orders during the current financial year from two MNOs. To drive value, Arqiva is also developing initiatives to explore how to make deployment easier and cheaper.

Additionally, Arqiva continues to evolve its M2M and IoT business by leveraging its network solution to a broader range of industry sectors. The Group is targeting the use of its existing M2M networks in key sectors such as utility infrastructure operations, asset management optimisation and smart building enablement.

Arqiva is fully committed and well-placed to support the UK in its efforts to become 5G ready.

**Smart energy metering rollout**

Arqiva has been building a smart metering communication network in the North of England and Scotland 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).

In November 2016, the DCC Service entered operational service (‘go-live’) throughout Great Britain following the completion of integration testing. The Arqiva network is successfully transmitting and receiving test messages between DCC users (the energy companies), and consumer electricity and gas meters. The rollout of the service to consumers’ homes is expected to accelerate over the next 12 months following service user testing. The rollout of the Arqiva network continues to evolve and has achieved 88% coverage of premises in line with our contractual commitments.

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 service is currently live with over 160,000 meters installed to date, an increase of circa 35,000 since the previous financial report.

Following the excellent delivery and results achieved to date, Thames Water have taken the decision to accelerate the smart metering network deployment. This will help to achieve coverage of 3 million homes several years earlier than originally planned in order to realise the benefits of extended coverage sooner. Arqiva has been instructed to deploy the full network coverage across London and we are targeting completion by the end of 2018.

**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 for 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 5,500 smart water meters have been installed.

**Kingston upon Thames street furniture concession secured**

During April 2017 Arqiva added Kingston upon Thames to its portfolio of London borough concessions, giving the Group access to further sites. The concession will give Arqiva the exclusive right to design, implement and operate commercial wireless networks on municipal street furniture sites in this borough. This development supports Arqiva’s strategy of developing its small cells proposition and brings the Group’s total number of concessions to 16.

**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. This has resulted in a significant year on year increase in Installation Services revenues. The Group had completed 6,058 4G equipment upgrades across Arqiva sites up to 31 March 2017 since rollout began in 2014. A further circa 3,100 upgrades are in progress or have been requested by the MNOs over the next 12 months. Installation Services supports the Group’s towers’ business where activity has been ramping up as the MNOs leverage Arqiva’s estate and capability to help them achieve their coverage requirements.

**Other**

‘FutureFit’

As mentioned in the previous financial report the Group launched a company-wide programme called ‘FutureFit’. Through this transformation programme Arqiva will streamline processes, modernise IT systems and achieve significant cost efficiencies and savings. The programme will drive the following initiatives:

- 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; and
- Cost reductions in spending on third party suppliers in all areas, with the aim of delivering further gross 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.
In the nine month period to 31 March 2017, in total ‘FutureFit’ had delivered £15m of gross savings which was incremental to the cost reductions achieved during the previous two financial years. Good progress is being made to secure the next tranche of savings. Key developments in the year include a reduction in leased line costs; the elimination of excess satellite transponder capacity; and cost reductions in a number of other operating cost areas.

Shareholder strategic review

Arqiva’s shareholders are jointly undertaking a strategic review of their investment in Arqiva, which may lead to a transaction involving their interests in the Company. There is no certainty that the strategic review will result in any transaction. A further announcement will be made as and when appropriate.

Maintenance Capex Expenditure

Maintenance capital expenditure is incurred on the maintenance of site infrastructure and the IT estate. This totaled £13.5m (up from £11.3m 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 £91.7m compared with the prior year period of £106.1m 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 £6.9m.

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’) 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 (and/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 March 2016: £353.2m notional principal; 30 June 2016: £353.2m notional principal).

Fair value measurement

The credit risk-adjusted fair value of the outstanding swaps at 31 March 2017 is a liability of £1,289.0m. This comprises £928.3m in relation to the RPI linked swaps (including principal accretion of £39.1m (2016: £22.8m)), £398.1m in relation to the IRS, and a £37.4m asset in relation to the cross currency swaps (2016: liability of £1,154.1m).

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 (excluding associated disposal costs) for the disposal was £25.0m.

Yours faithfully,

[Signature]

[Director/CFO]

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower