

# **ARQIVA INVESTOR REPORT FOR JUNIOR NOTES TRUSTEE**

## **SCHEDULE 6**

**Period ending 30 June 2019**

Date: 25 September 2019

## QUARTERLY INVESTOR REPORT

To: The Note Trustee

### 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 sole terrestrial broadcast network provider in the UK and the leading independent telecom towers operator. The Group's core infrastructure business (comprising terrestrial broadcast, digital platforms, satellite infrastructure, wireless site-share and machine-to-machine) generates predictable earnings, supported by strong market positions, diverse revenue streams, long-life assets and long-term inflation linked contracts. The Group had a contracted orderbook of £4.5bn as at 30 June 2019.

### Recent developments

#### Media Networks (formerly Terrestrial Broadcast and Satellite and Media)

##### *Consolidation of Terrestrial Broadcast and Satellite and Media*

On 1 July 2019, the Group combined the former Terrestrial Broadcast and Satellite and Media Business units, as well as the corporate network teams into a newly merged business unit, Media Networks. This was part of a strategy to ensure high levels of service quality for our customers, enabling us to serve customers seamlessly and irrespective of which distribution platform the customer is using. This has enabled us to rationalise teams where duplication existed, whilst aligning the priorities of the networks team with our customers' plans. We expect the skills and expertise of the networks team to become ever more important as customers explore the opportunities that internet delivered services offer.

##### *Reduced focus on Playout and closure of Occasional Use*

Our plans to reduce focus on Playout and traditional Occasional Use satellite distribution and uplinking are progressing well. We continue to support our Playout customers in the interim period as we run down our activities in this area and expect to exit the business by the end of calendar year 2020. Our traditional Occasional Use satellite distribution business closed, as planned, at the end of June 2019. These relatively subscale areas provided minimal contribution to the Group's overall earnings and cashflow. We successfully completed our repositioning to focus on providing managed services for live events focusing on the growth areas of content acquisition, contribution and IP and fibre delivery.

##### *New multi-year agreement with UK Power Networks*

In May 2019, Arqiva announced that it had been selected by Britain's biggest electricity distributor, UK Power Networks, to provide a new state-of-the-art Broadband Global Area Network (BGAN) solution for their secondary Supervisory Control and Data Acquisition (SCADA) network. The solution will enable UK Power Networks' engineers to operate equipment remotely to restore customers' power supplies quickly in the event of a power cut and also to monitor and receive regular status updates from the field. With expertise in cyber security and extensive knowledge of communication networks for critical national infrastructure companies, Arqiva's technical team designed a solution that meets UK Power Networks' needs to monitor and control the distribution power network robustly.

##### *700 MHz Clearance and DTT spectrum*

The 700 MHz Clearance project remains on track. The scope of the project is to clear the 700MHz spectrum band (694 MHz to 790 MHz) of DTT use, so that it can be auctioned by Ofcom and used for mobile data. The overall programme is expected to complete by late 2021 and the Group continues to earn revenues and cash flows as delivery milestones are successfully completed. At 30 June 2019, 66% of Clearance events had been successfully completed including the conclusion of Clearance events in Wales. Over 350 relay antennas have been completed out of 415 across the whole country.

##### *Digital Platforms channel utilisation*

As at 30 June 2019, the Group had capacity of 32 video streams on its main (DVB-T) multiplexes. In the short term, we expect that utilisation may reduce as a small number of customers review their channel portfolios. The Group continues to actively review all opportunities and remains confident in optimising the

medium and long term value of its DTT multiplexes. Contracts in this business area are still typically 3-6 years in duration.

#### *Digital radio (DAB)*

Since the start of this year, the Sound Digital multiplex (a JV with Bauer and Wireless Group) has operated at 100% utilisation following the launch of two Virgin Radio stations. Arqiva's Digital One national multiplex also remains fully utilised. We continue to market capacity on the 23 local multiplex licences which the Group owns and occupancy has increased year on year.

At the UK Radio Festival in May, the Minister for Digital and Creative Industries confirmed the start of the government's review of radio and its transition to digital platforms. The government has consulted with Arqiva and other stakeholders about the review's structure and key inputs. In her speech, the minister said The Government aims to conclude the review by "the middle of next year".

#### Telecoms & M2M

##### *Small cells and pilot network*

Whilst the UK small cells market remains in its early stages, demand continues to grow. Arqiva has hundreds of small cells deployed and operational across London and three out of the four UK mobile network operators (MNOs) have deployed small cells on Arqiva managed street assets. The service is equally suitable for 5G as it is for 4G.

The Group continues to progress plans to conduct a 5G small cells pilot trial (the UK's largest) in the London Borough of Hammersmith & Fulham, which will also involve the creation of a 15km high density fibre network. Live services will run from the second half of the 2019 calendar year.

##### *4G rollout*

The Group is approaching the completion of 4G rollout. 8,694 4G equipment upgrades were completed across Arqiva sites as at 30 June 2019 since rollout began in 2014.

##### *Major customer contract*

We have a major MNO customer contract maturing in late 2019. Negotiations to define our commercial relationship past this date are at an advanced stage.

##### *Smart energy metering rollout*

The Group's smart metering communication network in the North of England and Scotland has been live since November 2016.

The Arqiva network currently covers 99.25% of premises and is planned to reach final coverage of 99.5% by summer 2020. DCC continue to submit change requests that reflect new industry requirements planned to be delivered in November 2019 and June 2020. The Group expects change requests to continue into the new financial year, but at a reduced volume.

The Group continues to support the preparations of the DCC and their users ahead of the mass roll-out of SMETS2 meters which is expected during late 2019 when latest models of compliant Smart Meters become available to Energy Suppliers.

##### *Smart water metering rollout – Thames Water*

Since April 2015, Arqiva has delivered a smart metering network that enables the collection, management and transfer of metering data for Thames Water. At 30 June 2019, there were over 407,000 meters installed and with over 8 million meter readings being delivered per day it is the largest smart water metering network in the UK. The network comprised 98 sites out of the 106 required for full network coverage across the entire Thames Water London region with completion expected during summer 2019.

##### *Smart water metering trial contracts – Anglian Water*

Since June 2016, Arqiva has been operating smart water metering trials for Anglian Water in two of their regions. These trials are part of Anglian Water's strategy for a long-term smart metering programme and the delivery of our service has enabled Anglian to realise the significant benefits of improved leakage detection, and consumer engagement, whilst also informing their business plans. As at 30 June 2019, over 17,500 meters were operational under these trials and Anglian Water has seen 358,000 litres per day less customer

leakage. Consequently, Anglian has announced a procurement tender process for a full smart network across their supply area, pivotal for the delivery of their next five year business plan.

## Other

### *Transformation update*

The Group's company-wide transformation programme, 'FutureFit' is progressing strongly as it moves into its next phase of delivery. Through this transformation programme, Arqiva continues to streamline and standardise its processes, rationalise and modernise IT systems, achieve significant efficiencies and improve customer service.

We continue to invest in new technologies to secure our infrastructure further and improve our ways of working with the deployment of an enhanced digital workplace. We have completed a full migration to a mobile enabled workforce and continue to enhance our collaboration tools and capabilities with the deployment of new applications to all laptops and smartphones. We expect to make further investment as planning is well underway for the complete overhaul of our Service, Asset Management, Network Management and ERP systems. This will transform our core operational delivery model across the full range of our products and services.

### *CFO change*

In May 2019, Jane Aikman, Chief Financial Officer, left Arqiva and has been replaced by Sean West, previously our Director of Treasury & Corporate Finance. Prior to joining Arqiva, Sean held senior corporate finance and treasury positions at the Intermediate Capital Group (ICG) and LandSec and brings a wealth of experience across a range of industries and financial markets.

## **Capital Expenditure**

During the year ended to 30 June 2019, the Group incurred the following capital expenditure:

| £m                                  | Year ended<br>30 June |              |               |
|-------------------------------------|-----------------------|--------------|---------------|
|                                     | 2019                  | 2018         | Change        |
| Growth Capex – contracted           | 78.8                  | 121.7        | (42.9)        |
| Growth Capex – non contracted       | 4.4                   | 4.7          | (0.3)         |
| Maintenance                         | 32.6                  | 30.3         | 2.3           |
| <b>Subtotal capital expenditure</b> | <b>115.8</b>          | <b>156.7</b> | <b>(40.9)</b> |
| Sale of non-current assets          | (0.7)                 | (0.3)        | (0.4)         |
| Capital creditors/accruals          | 6.2                   | 8.4          | (2.2)         |
| <b>Net capital expenditure</b>      | <b>121.3</b>          | <b>164.8</b> | <b>(43.5)</b> |

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering and the decrease in expenditure during the year ended 30 June 2019 compared to the prior year period reflects the phasing of works associated with these projects. 700 MHz Clearance capex peaked in the prior year and is expected to reduce as the project nears completion around 2021. Smart energy metering change requests were lower than the previous period, are directly linked to the scale of DCC and industry change requirements and are therefore variable in nature.

Non contracted growth capex at £4.4m was broadly consistent with the prior year.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The increase compared to the prior year period was mainly due to the greater level of routine structural maintenance undertaken as well as reflecting the progress the Group is making on its transformation programme.

## **Financing**

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B2 (Fitch/Moody's).

We confirm that:

- (a) no Ratings Downgrade Event has occurred;
- (b) no Default or Senior Trigger Event has occurred and is continuing; and
- (c) the statements set out in this Quarterly Investor Report are accurate in all material respects.

## **Current Hedging Position**

We remain in compliance with hedging covenants.

Yours faithfully,



SEAN WEST  
CFO

Signing without personal liability, for and on behalf of

Arqiva Broadcast Finance plc as Issuer