

ARQIVA INVESTOR REPORT FOR JUNIOR
NOTES TRUSTEE

SCHEDULE 6

Full year ending 30 June 2020

Date: 21 September 2020

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's core infrastructure business comprises of Media Networks and Machine-to-Machine (M2M). It generates predictable earnings, supported by strong market positions, diverse revenue streams, long-life assets and long-term inflation linked contracts. The sale of the Telecoms business was successfully completed in July as detailed in this report. The Group had a contracted orderbook of £4.0bn as at 30 June 2020 for the remaining business post the Telecoms sale.

Recent developments

Corporate updates

Sale of Towers business and repayment of debt

On 8 July 2020, Arqiva successfully completed the sale of the Telecoms business by disposing Arqiva Services Limited and five smaller entities to Cellnex. The c. £2.0bn deal was first announced in October 2019 and includes the sale of c.7,400 sites and contractual rights to market a further c.900 sites across the UK.

The majority of the sales proceeds is being used to repay senior debt and derivatives that will result in a stronger capital structure for the remaining business.

In April 2020 the Group also entered into a new £165m Working Capital Facility. The purpose of this facility was to provide additional liquidity and drawings on other working capital and capex facilities to repay the £350m public bond which matured on 30th June 2020. This served as a bridge between the bond repayment date and receipt of Telecoms business disposal proceeds. Immediately prior to 30th June 2020 the Group had drawn down £160m under this newly established facility.

Separation

The separation process in respect of the above sale also completed on 8th July, with all impacted Telecoms employees transferring from Arqiva Limited to the disposed Arqiva Services Limited. Operationally, the Transition Services Agreements (TSA) went live on this date following a successful period of testing during June and early July. The programme is currently in a period of post close activity which will last up to 60 days and a separate TSA exit programme is being initiated to ensure an eventual smooth migration off the TSA systems.

Credit ratings update

Following the sale of the Telecoms business and the resulting deleveraging of the Arqiva group, in June 2020 Moody's announced a one notch upgrade (to Ba2/B1) for the junior debt. Fitch and S&P maintained the ratings existing prior to the sale with senior and junior debt at BBB (Fitch/S&P) and B- (Fitch) respectively.

New CEO and new organisation structure

As reported in the previous financial report Paul Donovan was appointed Chief Executive Officer on 20 April 2020. Paul has over 20 years' experience in senior executive roles across the technology, media and telecommunications sectors. He was a Non-executive Director on Arqiva's Board and has previously been CEO of Odeon and UCI Cinemas Group and eir, Ireland's leading telecommunications business. He was also a member of the Vodafone Group's Executive Committee, where he led the Group's emerging markets businesses.

Following the Telecoms disposal, Paul will drive the next phase of Arqiva's evolution by focusing on strengthening the Group's position as the UK's number one broadcast infrastructure solutions provider and a leading player in the UK M2M market. To drive this focus, Arqiva has adopted a new organisation structure underpinned by an integrated operating model. The business will move away from the business unit structure and organise itself in a way that will better serve our customers, their delivery requirements, and the products and services that we provide. This change will:

- Place productivity, innovation and sustainability at the heart of our actions;
- Create a high performance, high engagement culture; and
- Deliver financial outcomes which create value for shareholders.

COVID 19

During this period of the COVID 19 pandemic, Arqiva continues to provide customers with essential communications infrastructure for broadcast, media and M2M services. We have deployed business continuity plans as part of our operational and financial risk mitigation, to ensure the safety of our staff and the ongoing provision of services for our customers.

Measures have been put in place across a number of areas including:

- Ensuring workplaces and activities conform to the Government COVID Secure guidelines;
- Implementing alternative working arrangements and technology to keep our employees and contractors safe;
- Having a phased step plan for resuming activities as restrictions ease;
- Ensuring regular communication with critical suppliers, identifying and managing any risks;
- Ensuring disaster recovery plans can be invoked for critical assets and systems;
- Cyber security, where we have reviewed and further strengthened this; and
- Financial liquidity – where we continue to review our available facilities and have increased the Group's working capital bank facilities

Transformation update

Our newly deployed digital workplace has supported our teams (more than 1,600 people) in working remote from our offices since March, with no interruption or degradation to our services or productivity. The first major releases of our new integrated core platforms underpinning our business transformation, remain on track for the end of the calendar year. Our Enterprise Resource Planning (ERP) solution, Asset Management solution and service and network management platforms are all being released also during the next financial year. These transformations are further underpinned by our ongoing data transformation across the Arqiva enterprise enabling new business intelligence and analytics capabilities. We continue to invest in new technologies to optimise our business, secure our infrastructure and digitise our ways of working driving increased efficiency and providing more flexible ways of working for our employees.

Media Networks

700 MHz Clearance and DTT spectrum

Following a 4 month delay due to COVID-19, the last two Clearance events were successfully completed in August 2020. This completes the viewer-facing retune events and makes the 700MHz spectrum available for Ofcom auction which was the prime objective of the programme. Ofcom issued a news release upon completion that stated 'The biggest Ofcom project you've probably never heard of', which is testament to the work completed by Arqiva, given nearly 35 million households needed to retune their TVs over the last 3.5 years. The impact of the delay on Arqiva's cash flow and profitability was limited, as we aligned the major spend on contractors with the remaining cash receipts relating to this project. Project completion activities will continue for another year including the removal of the temporary mast at Emley Moor.

Digital Platforms channel utilisation

Arqiva's main (DVB-T) multiplexes remain highly utilised with 90% of capacity sold as at 30 June 2020. The increase in utilisation from the previous quarter is due to the addition of a fourth 24hr slot from a major customer (due to launch in September 2020) as part of a multi-channel renewal which extends their services on the DTT platform to 2026. In addition, the independent broadcaster Talking Pictures also extended their commitment to the DTT platform to 2026 and a day-part channel, CCXTV was replaced by Hochanda TV service.

The uptake of TV viewing on the DTT/Freeview platform has been strong during the current lockdown period as more people stay at home. TV has provided a vital way of keeping people informed, helping with social isolation and entertainment. The wide reach of the DTT platform has been of vital national importance for delivering news and other information to the whole nation and for supporting society during the current pandemic.

The Group's current interim DVB-T2 multiplex licence ended in June 2020 and was replaced by Ofcom with a new licence with a 3 month rolling notice period. As a result of the change Arqiva moved from two to one multiplex in the spectrum - it closed Com8 multiplex with the remaining services moving to the Com7 multiplex. The terms of the licence mean that Arqiva will be required to vacate the spectrum if it is needed by the holder of the spectrum following Ofcom's auction of the 700 MHz spectrum. Ofcom recently announced that it plans to auction the spectrum in January 2021. Subject to the notice period being triggered and avoiding interference, Arqiva will have the right to remain in the spectrum until June 2022.

Radio

Like many sectors of the wider economy, UK commercial radio was impacted by COVID 19 with a reduction in revenue as many businesses cut advertising budgets as a result of the temporary closure of shops, car retailers and travel companies, amongst others. Discussions between Arqiva, the Government and the radio industry resulted in a reduction of fees for some customers across both DAB and analogue. The aim is to ensure the sector can emerge strongly from COVID 19. The fee reductions were welcomed by the Minister for Media and Data, who praised Arqiva for their support.

Despite the loss of advertising revenue, informal indications are that the volume of hours of radio listening has increased during the lockdown as more people tune in to radio for news and entertainment. With the easing of lockdown restrictions, we expect radio advertising to increase again as companies strive to regain market share and rebuild their businesses. Viewed over a longer timescale, trends remain positive. The latest figures from industry data provider RAJAR show that 58.6% of listening is now to digital radio platforms (Q1 2020) with DAB representing more than two thirds of digital consumption. Listening to national commercial radio has shown particularly strong growth. The switch to the more efficient DAB+ audio coding has enabled customers to launch further new national stations. This has helped keep the first national commercial DAB multiplex, Digital One (wholly owned by Arqiva) at 100% occupancy. The second national multiplex, Sound Digital (a joint venture between Arqiva 40%, Bauer 30% and Wireless 30%) is also fully contracted. Even during the pandemic, the big radio groups continued to bring new national stations to DAB with Smooth Chill from Global launching in April and Times Radio from News UK in June.

Lastly, Arqiva has also further extended its relationship with BBC, a key strategic partner, with the renewal of the Analogue Radio agreement for an additional 5 years. This agreement covers the key AM and MW services the BBC deliver to its listeners around the UK and further underpins the importance of radio to the UK.

M2M

Anglian Water

In June 2020, following an open competitive procurement process and long running trials, Arqiva was selected to deliver a smart metering fixed network for Anglian Water. Designed to enhance their water management capabilities, Arqiva's contract will support Anglian on its mission to achieve leakage and consumption savings and meet Ofwat's water leakage targets for the next five-year period and beyond. During this initial five-year period, Arqiva will deploy the fixed network infrastructure to support the operation of over three-quarters of a million (789,000 target by 2025) smart water meters across 24 planning zones. Arqiva will then operate the infrastructure for a further 15 years. Covering both household and non-household properties, the project will support Anglian Water's target Planning Zones including Norwich, Lincoln, Northampton and Peterborough, among others.

The trial follows two successful projects between Arqiva and Anglian Water in Newmarket and Norwich which began in 2016 and 2018. During the first 18 months of the Newmarket trial, billed customers who migrated from a "dumb" meter to a smart meter reduced their consumption by 11%, mostly due to reducing customer side leaks.

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 30th June 2020, there were over 480,000 meters installed and well over 10 million meter readings being delivered per day. It is currently the largest smart water metering network in the UK and it comprises high coverage across the Thames Water London region. At the beginning of June, Thames announced publicly that round-the-clock data from smart meters across

London has helped it find and repair a record number of leaks, hit its regulatory target, and reduce overall leakage from its 20,000 mile network of pipes by 15 per cent in one year. Smart meters have helped Thames Water achieve what it described as the water industry's "biggest reduction in leakage this century".

Yorkshire Water

Arqiva has been selected by Yorkshire Water to deliver and monitor a smart metering fixed-network trial as part of its plans to revolutionise its leakage detection programme. This two-year exercise will see Arqiva build and monitor the fixed-network infrastructure to facilitate the operation of new smart water meters for non-household customers across 30 of Yorkshire Water's areas.

Designed to facilitate real-time monitoring, the collection and presentation of frequent meter reading data provided by the service will allow Yorkshire Water to reduce demand for water by rapidly identifying leaks and helping customers understand their usage.

Meter installations began in mid-May 2020 and our network went live at the end June 2020. The non-household meters are smart-enabled and, where they are installed in coverage, will automatically connect to the fixed network.

Other Trials:

For a water company in the South East of England, over the last year, Arqiva has been supporting its global technology partner Sensus, a Xylem brand, in a multi-vendor, multi-technology evaluation smart water metering trial including the use of their data analytics platform. Over this period, we have been providing hourly reads with a consistently high service. Based upon our performance we have ended up serving the majority of the meters in the trial, c.1,450 of a total complement of c.1,800 meters.

In the Midlands, for the last 12 months with a major water company, Arqiva has been participating in a multi-vendor, multi-technology smart water metering evaluation trial. Over this period, we have again proven the excellent performance of our technology and managed service. We are now discussing the options of an extension and expansion of the trial for a further 2 years enabling the water company to fully evaluate the benefits and establish a business case for a future full smart metering roll-out.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland currently covers 99.4% of premises and is planned to reach final coverage of 99.5% by end of 2020. The customer, the Data Communications Company (DCC), continues to submit change requests that reflect new industry requirements, but at a reduced volume compared to the previous period.

The Group continues to support the DCC and their users ahead of meter rollout programmes. DCC latest data states that there are now 4.3 million SMETS2 meters on the national network. Whilst the rollout completion date is currently under consultation and was likely to be extended from 2020 to the end of 2024, we believe a further extension may be considered in light of COVID 19. Arqiva continues to work proactively with DCC, BEIS and other service providers to minimise any effects.

Capital Expenditure

During the year ended 30 June 2020 the Group incurred the following capital expenditure:

£m	Year ended 30 June		Change
	2020	2019	
Growth Capex - contracted	70.8	78.8	(8.0)
Growth Capex – non contracted	4.0	4.4	(0.4)
Maintenance	38.3	32.6	5.7
Total Capex	113.1	115.8	(2.7)
Sale of non-current assets	-	(0.7)	(0.7)
Capital creditors/accruals	2.3	6.2	(3.9)
Net cash capital expenditure	115.4	121.3	(5.9)

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering. The decrease in expenditure during the year to 30 June 2020 compared to the prior year period primarily reflects the phasing of works associated with the 700MHz Clearance programme. Decreases have been partially offset by an increase related to the Smart Metering programme mainly due to an IT refresh and water metering contracts.

Non contracted growth capex at £4.0m has decreased due to a reduction in capitalised product development.

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 phasing of our transformation programme.

Financing

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B1 (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,



CFO

Signing without personal liability, for and on behalf of

Arqiva Broadcast Finance plc as Issuer