

ARQIVA INVESTOR REPORT FOR JUNIOR NOTES TRUSTEE

SCHEDULE 6

Three month period ending 30 September 2019

Date: 22 November 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

Sale of Towers business

On 8 October 2019, Arqiva announced that it had reached an agreement to sell its Telecoms division to Cellnex for £2.0bn. The transaction will include c. 7,400 sites and the contractual rights to market a further c. 900 sites across the UK. The majority of the sales proceeds will be used to repay senior debt and swaps to ensure a robust capital structure for the remaining business. Repayments will be made to ensure that the Group retains a robust capital structure. The Group continues to work with various stakeholders to complete the transaction in the new calendar year.

The remaining business will consist of the Media Networks business which incorporates the Terrestrial Broadcast TV and Radio, Digital Platforms, Satellite products as well as the Group's M2M business.

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 them seamlessly and irrespective of how they want to deliver content to their audience. A single account management contact has now been embedded across all customers.

Reduced focus on Payout and closure of Occasional Use

Following the closure of our traditional Occasional Use satellite distribution business on 30 June 2019, we also continue to progress our plans to exit the payout market by the end of calendar year 2020. In July we successfully migrated away a major live sports payout from our Feltham operation and a second large contract is on track to leave by early 2020. These Occasional Use and Payout businesses were relatively subscale areas providing minimal contribution to the Group's overall earnings and cashflow.

UK Power Networks network rollout underway

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. Following successful technical testing through summer 2019, the first live sites are being rolled into the South East England region, with full volume rollout expected to continue through 2020 and 2021.

700 MHz Clearance and DTT spectrum

The 700 MHz Clearance project remains on track to complete the last Clearance Event that will impact viewers (freeing up the spectrum for mobile use) by mid-2020. 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 which will include final reinstatement of sites and completion of grant administrations. The Group continues to earn revenues and cash flows as delivery milestones are successfully completed. At 30 Sep 2019, 81% of Clearance events had been successfully completed including the conclusion of Clearance events in Northern Ireland. 392 relay antennas had been completed out of 415 across the whole country.

Digital Platforms channel utilisation

During the quarter, the Group successfully renewed four channels with Channel 4 and Gems TV and launched a new channel with Discovery. Contracts in this business area are still typically 3-6 years in duration.

Following the review by a small number of customers of their channel portfolios, the Group's main (DVB-T) multiplexes remain mostly utilised albeit slightly reduced to 93%. The Group continues to review all opportunities and in discussions with a number of customers and remains confident in optimising the medium and long term value of its DTT multiplexes.

Digital radio (DAB)

The migration of radio from FM and AM to digital continues, with the latest official figures from RAJAR showing that 56.8% of listening is now to digital platforms (RAJAR Q3 2019). Listening to national commercial radio is showing particularly strong growth. Digital One (owned 100% by Arqiva) and Sound Digital (a JV with radio groups Bauer and Wireless), the only two national commercial DAB multiplexes, have been at 100% occupancy since the start of the calendar year. We continue to market unused capacity on the 23 local DAB multiplexes owned by Arqiva and occupancy has increased year-on-year.

The Government's review of the UK's transition to digital continues. Arqiva has been working directly with other stakeholders on analysis which will feed into the review and the expectation is that the review will be completed towards the end 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. All of our London concessions now have live services or orders placed against them. The service is equally suitable for 5G as it is for 4G.

The Group's 4G / 5G small cells pilot trial in the London Borough of Hammersmith & Fulham, which will also involve the creation of a 15km high density fibre network, is approaching live service delivery in late calendar year 2019 as planned.

Major customer contract

We have a major MNO customer contract maturing at the end of 2019. Negotiations and associated governance in relation to this contract renewal continues to progress in line with expectations.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland 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 during this 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 (second generation smart meters) which is expected during late 2019 when the latest models of compliant Smart Meters become available. DCC has already noted that as of October 2019 there were 2.5 million SMETS2 meters on the national network and whilst the rollout completion date is likely to be extended from end of 2020 to end of 2024 this extension is reflective of the time needed by energy suppliers and their meter installation teams.

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 September 2019, there were over 435,000 meters installed and with over 9.5 million meter readings being delivered per day it is the largest smart water metering network in the UK. The network comprised 104 sites out of the 106 required for full network coverage across the entire Thames Water London region with completion expected late 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 September 2019, over 17,500 meters were operational under these trials and Anglian Water has seen 358,000 litres less customer leakage per day. Consequently, Anglian has formally released a procurement tender process for a 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 integrated system design and delivery phase. Through this transformation programme, Arqiva continues to standardise and streamline its processes. We are rationalising and modernising our IT systems to achieve significant efficiencies, increased speed to market and improved customer service.

We continue to invest in new technologies to secure and optimise our infrastructure, digitising our ways of working with the deployment of an integrated digital and mobile 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 which will complete in December 2019. We are making further investments in our Service and Site Management platforms, Network Management and ERP systems as well as a complete overall of our data management capability. The first deployments will begin in early 2020. We have adopted a tried and tested release management approach to the deployment of our new capabilities all of which is driven from a single, integrated plan under a tiered governance framework. FutureFit will transform our core operational delivery model across the full range of our products and services.

Capital Expenditure

During the quarter the Group incurred the following capital expenditure:

£m	3 months ended 30 September		
	2019	2018	Change
Growth Capex - contracted	20.6	24.5	(3.9)
Growth Capex – non contracted	0.5	1.2	(0.7)
Maintenance	9.2	7.1	2.1
Total Capex	30.3	32.8	(2.5)

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart metering. The decrease in expenditure during the three month period to 30 September 2019 compared to the prior year period primarily reflects the phasing of works associated with the 700 MHz Clearance programme. Decreases have been partially offset by an increase related to the Smart metering programme mainly due to an IT refresh.

Non contracted growth capex at £0.5m 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 increased transformation activity, predominantly within IT and networks.

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