

INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED

SCHEDULE 7

Nine month period ending 31 March 2021

Date: 12 May 2021

FORM OF INVESTOR REPORT/QUARTERLY INVESTOR REPORT

To: The Issuer Security Trustee, the Rating Agencies and the Paying Agents

GENERAL OVERVIEW

Arqiva is the UK's leading enabler of digital connected solutions across the Broadcast and Utilities markets. 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 2020. The Group had a contracted orderbook of £3.8bn as at 31 December 2020 for the remaining business after the Telecoms sale.

Recent developments

Management changes

On 1 March 2021, Adrian Twynning joined Arqiva as Chief of Operations. Adrian comes with significant experience of leading large-scale operations, designing systems and leading sizeable business change. Most recently Adrian was Director of Transformation at Dixons Carphone, where he implemented new IT platforms, launched a new service proposition and oversaw a programme of retail rationalisation. Previously Adrian was at British Gas where he led a 4,000 strong Field Operations team and led changes to culture, process and technology. He replaces Neil Taplin, who left the company at the end of March.

COVID 19

As lockdown eases Arqiva continues to provide customers with essential communications infrastructure for our broadcast and utility customers. 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 are still in place across a number of areas including:

- Ensuring workplaces and activities conform to the Government's COVID Secure guidelines;
- Using rapid flow antigen tests for our key workers and encouraging all employees to order their own rapid flow antigen tests;
- Implementing alternative working arrangements and technology to keep our employees and contractors safe;
- Ensuring that we plan and deliver our activities in line with Government alert levels;
- 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, which we have reviewed and further strengthened; and
- Financial liquidity, which we review continually to ensure a robust position. We had benefitted from the Government's VAT deferral scheme but repaid the full amount in the previous quarterly period.

Transformation update

Our Digital Transformation has continued uninterrupted by COVID 19. Following the successful launch of our Service Transformation and implementation of our single ServiceNow platform (IT service portal) in October 2020, we continued with our Finance Transformation and the implementation of a new Oracle ERP platform in December 2020. Within our Site Transformation programme, we have now launched our Siterra platform (site data management) hosted in the cloud and following our Data Transformation programme, we have launched our cloud-based Master Data Management solution.

The remainder of 2021 will see releases of other new capabilities across our transformed systems in-line with the rest of our data transformation programme. This will migrate all of our core operational data from our legacy systems (which will be decommissioned across 2021) to the newly transformed, integrated systems. Our Network Modernisation and Digital Workplace programmes continue to deliver to plan.

Broadcast

700 MHz Clearance and DTT spectrum

The principal stage results of the auction of the 700MHz spectrum were published by Ofcom on 17 March 2021. Ofcom showed the four major operators BT/EE, Three, Telefonica UK (O2), and Vodafone acquired all

of the 200MHz available across the 700MHz and 3.6-3.8GHz bands. Subject to the 3 months notice period being triggered by the acquirors, Arqiva will continue to have the right to remain in this spectrum with its DVB-T2 multiplex until June 2022. This will not affect Arqiva's main national multiplexes.

Arqiva's 700MHz Clearance project completion activities continue with a project team until around October 2021. Principal site works include completion of permanent antenna works at Emley Moor, scheduled for Autumn 2021, and the removal of the temporary mast at Emley Moor in 2022. The team size continues to reduce as the project ramps down in accordance with the agreed plan, with efforts focused on commercial and financial close-out.

Digital Platforms channel utilisation

Arqiva's main (DVB-T) multiplexes remain at a utilisation of 94% as of 31 March 2021. The GB News service, contracted in the last period, is due to launch across Freeview and all major platforms in May 2021. A four-year renewal was secured for three significant and high-profile DTT channels: Dave, Yesterday and Dave Ja Vu. The deal involves early renewal of the three DTT carriage agreements by extending their terms for four years, with the option to extend terms for a further two years, demonstrating the continued value of Freeview.

TV viewing on the DTT/Freeview platform has remained strong during the pandemic period as more people stayed 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. TV advertising, an important driver for DTT has also been showing positive trends. Media markets have been recovering and some industry sources expect TV advertising to grow in excess of 10% this year. In May, ITV reported that TV advertising trends have been positive since March and that it forecasts over 20% increase in advertising revenues compared to 2020.

Government (DCMS) updates

In December 2020 the DCMS issued a consultation on DTT Multiplex licences. It set out options to extend licences potentially up to 2034, indicating the ongoing requirement for the DTT platform in the absence of a viable alternative over the foreseeable future. The DCMS is expected to announce the conclusions to this consultation in the coming months.

Separately, in March 2021 the DCMS published a report after undertaking a review of the future of public service broadcasting. The DCMS select committee concluded that due to a lack of a viable and alternative form of funding for the BBC means the Government will have to rely on the TV licence fee for the term of the next Charter. The necessary broadband infrastructure to facilitate a move to other funding mechanisms will not be in place for the next Charter. The report is positive for Arqiva, highlighting the importance of linear and broadcast TV and that universality remains central to policy. Non-broadcast platforms are not currently capable of supporting this and that the PSB model and Licence fee funding is likely to remain in place for the very long-term.

Radio

The pandemic has underlined the public service role of both commercial radio and the BBC. Despite the lockdown in recent months, Arqiva continues to deliver the levels of availability and consistency that our broadcast partners expect. The company's role in supporting the radio sector financially during the year has been recognised by Government and key stakeholders.

COVID 19 continues to impact commercial radio revenues but with UK lockdown restrictions easing, discounts ceased at the end of March 2021. Optimism around the vaccination rollout programme and the hope that further hard lockdowns can be avoided is giving advertisers more confidence. Whilst trading conditions for the radio sector remain challenging, they are improving.

Customers continued to launch new stations on Arqiva's local DAB digital radio multiplexes across the country. On the Sound Digital national multiplex (a joint venture of Arqiva 40%, Bauer 30% and Wireless Group 30%) a 21st station, Boom Radio, launched in March bringing Sound Digital up to 100% occupancy. Digital One (the national multiplex wholly owned by Arqiva) is also operating at full capacity.

The Government's Radio and Audio Review continues with Arqiva playing an active role alongside other stakeholders to review the future of radio. COVID has delayed the completion of some of the research and

analysis commissioned for the Review and the final report is now expected to be published during the summer.

Low Earth Orbit Market

Arqiva has been developing opportunities in the Low Earth Orbit market. This is a new technology that relies on a constellation of thousands of small satellites orbiting the earth. By establishing multiple connections to multiple satellites, the technology can for example provide satellite broadband anywhere in the world. Key players are SpaceX, Blue Origin and the recent UK Government investment in OneWeb plus established satellite operators such as Telesat and ViaSat. This opportunity requires groundstations and therefore Arqiva has the capability to serve this market. The Group has now secured two customers. Contractual obligations prevent us from naming them.

Utilities

New proof of concepts

Arqiva has engaged with utility customers and industry suppliers as it looks to expand its presence in the utilities industry. Building on our established credibility in critical national infrastructure and security we are leveraging our relationships with existing and new utility customers by exploring a number of proof of concepts (PoCs). This includes a trial of “hybrid connectivity” services by utilising our satellite, cellular and private radio solutions. The trial with SGN is running and we have demonstrated both sewer level monitoring and leakage monitoring as a service. The PoCs will give our utility customers the opportunity to improve the management of their operational networks and achieve their regulatory targets.

Anglian Water

In June 2020, following a competitive procurement process, Arqiva was selected to deliver a smart metering fixed network for Anglian Water. Designed to enhance Anglian’s water management capabilities, Arqiva’s contract will support them on their 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 this network 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.

Anglian successfully commenced their meter rollout on 6 July 2020 which was less than one month from contract signature. The meter roll-out has now ramped up to typically over 1,000 per day and as at 31 March 2021, we were providing service to over 180,000 installed meters under our network.

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 31 March 2021, there were over 500,000 meters installed and well over 12 million meter readings being delivered per day. It is currently the largest smart water metering network in the UK and has high coverage across the Thames Water London region and recently we have installed network capability in the Guildford area which is Thames’ first smart meter deployment outside London.

In March 2021 they announced that using the smart metering data has helped to prevent over 19 million litres per day leakage since April 2020. Smart meters have helped Thames Water achieve what it described as the water industry’s “biggest reduction in leakage this century” and also having hit its regulatory target.

Northumbrian Water

Following a public competitive procurement, Arqiva has been selected by Northumbrian Water Group to deliver an initial roll-out of a smart metering network in Essex, where it operates as Essex & Suffolk Water. The project will support Northumbrian Water in its commitment to deliver smart metering to customers within the current Asset Management Plan (AMP 2020-2025), as well as meeting the company’s target to ensure all domestic meters are smart by 2035.

The five-year contract will see Arqiva build and monitor the fixed-network infrastructure, delivering connectivity to up to 11,000 domestic meters, replacing both meters already installed and installing new meters for un-metered supplies in empty meter chambers which have been identified. Meters will be

provided by Arqiva's metering partner Sensus, a Xylem brand, and installations will begin in May. The network is planned to go live at the same time.

Lessons learned from this initial implementation will be used to guide the subsequent smart-meter roll-out over the rest of Northumbrian Water Group's operating regions.

Yorkshire Water

Arqiva was 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 of June 2020.

Other smart water metering trials

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

Lastly, in March 2021 the Competition and Market Authority (CMA) also published its final decision on price controls for four water companies. This review was as a result of those companies asking the CMA in 2020 to redetermine the price controls that were previously set by Ofwat in 2019 for the period 2020-2025. CMA, as an independent group reached a conclusion whereby the rate of return agreed (3.2%) although lower than the previous price control period (4.67%) was higher than what Ofwat proposed (2.96%). We are confident with these reviews completed, water companies can now proceed to invest in connectivity and smart metering in line with their regulator approved business plans.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland now covers 99.5% of premises. There are currently c902k communications hubs operating on the network representing 20% of the total UK communication hub installations. The customer, Smart DCC Ltd, (DCC), continues to submit change requests that reflect new industry requirements, but at a reduced volume compared to the previous periods.

The Group continues to support the DCC and their users ahead of meter rollout programmes. DCC has reported that there are now c. 7.3 million SMETS2 meters on the national network.

Corporate updates

Sale of telecoms business

The sale of the Telecoms business to Cellnex completed in July 2020 and the Group's operational and asset separation has now largely been completed. Operationally, Arqiva has been supporting Cellnex's UK business via Transitional Services Agreements (TSA) originally planned for a period of up to 18 months from the deal completion date. We expect our TSAs to complete on or before scheduled end dates across the various areas.

Capital Expenditure

During the nine months ended 31 March 2021 the Group incurred the following capital expenditure:

£m	9 months ended 31 March		Change
	2021	2020	
Growth Capex - contracted	30.9	49.4	(18.5)
Growth Capex – non contracted	1.3	2.2	(0.9)
Maintenance	27.5	28.5	(1.0)
Total Capex	59.7	80.1	(20.4)

Contracted growth capex includes spend on initiatives including the continued rollout and enhancement of our Smart Metering network, and necessary capex associated with new commercial radio engineering projects as well as the final stages of the 700MHz Clearance programme. The decrease in expenditure during the nine month period to 31 March 2021 compared to the prior year period primarily reflects the phasing of works associated with these contracts. Expenditure on the 700 MHz Clearance programme has decreased as it reaches completion with the last two clearance activities completed in August 2020, despite the coronavirus pandemic. Further decrease is due to an ongoing IT refresh related to the Smart Metering programme which continues but with spend not repeated at the same level as last year.

Non contracted growth capex at £1.3m has decreased due to one off projects in the prior year period not repeated.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The expenditure has remained relatively flat as the Group progresses with its 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).

Ratios

We confirm that in respect of the investor report dated 22 February 2021, 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:

- Historic Net Debt to EBITDA for the relevant Test Period ending on (and including) 31 December 2020 was 2.44;
- Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2020 was 2.84;
- Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2020 was 1.91 (together with (a) and (b) above, the **Historic Ratios**);
- Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 31 December 2020 is 2.94;
- Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2020 is 5.08; and
- Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2020 is 2.96 (together with (d) and (e) above, the **Projected Ratios**).

We confirm that:

- a) 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;
- b) no Ratings Downgrade Event has occurred;
- c) no Modified Net Debt to EBITDA Ratio Breach has occurred;
- d) no Default or Trigger Event has occurred and is continuing; and
- e) the statements set out in this 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 Financing No 1 Limited as Borrower