

INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED

SCHEDULE 7

Three month period ending 30 September 2020

Date: 23 November 2020

FORM OF INVESTOR REPORT/QUARTERLY 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's core business comprises of 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 as detailed in this report. The Group had a contracted orderbook of £4.0bn as at 30 June 2020 for the remaining business after 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 of Arqiva Services Limited and five smaller entities to Cellnex UK Limited. The sale included c.7,400 sites and contractual rights to market a further c.900 sites across the UK.

The majority of the sales proceeds were used to repay senior debt and derivatives, resulting in a stronger capital structure for the remaining business. The Group committed to repaying a minimum of c£1.8bn debt and derivatives and this has now all been completed as follows:

- £550m of bank facilities, £90m ITL, £18m EIB loan and £515m private placements (net of cross-currency swap gains);
- £566m to partially pay down IRS and ILS swaps and all of the cross-currency swaps held at year end; and
- Less than £100m for associated break costs

The Group's operations and asset separation relating to the Telecoms sale has largely been completed although work continues on the transfer of site leases to schedule whilst the ongoing trading agreement for access to sites between Arqiva and Cellnex has now commenced. Operationally, Arqiva will continue to support Cellnex's UK business via Transitional Services Agreements (TSA) for a period of 18 months from the deal completion date.

New organisation structure

Following the Telecoms disposal, Arqiva has announced a new organisation structure underpinned by an integrated operating model. The new organisation structure will help 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.

COVID 19

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 are in place across a number of areas including:

- Ensuring workplaces and activities conform to the Government's COVID Secure guidelines;
- 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, where we have reviewed and further strengthened this; and
- Financial liquidity – where we continue to review our available facilities

Transformation update

Our modern digital workplace has continued to evolve and facilitate more collaborative, remote and digital ways of working as we continue to support our customers through COVID 19 with no interruption or degradation to our services or productivity. One of the major transformation milestones for this financial year was reached in October 2020 as planned, accelerating our Service Transformation through the launch of our single business wide Service Platform and a number of enabling cloud-based technologies. Our Finance Transformation programme remains on track for its first major release in the coming quarter with a new ERP implementation with its associated data transformation and analytics. Our Network Modernisation programme continues to deliver on plan reaching another major milestone completing the last upgraded microwave link in October.

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 completed the viewer-facing retune events and makes the 700MHz spectrum available for Ofcom auction which was the primary objective of the programme. 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 with a project team until around October 2021, including the removal of the temporary mast at Emley Moor; decommissioning of temporary site works and financial reconciliation of spend with Ofcom. The team size is reducing as the project ramps down in accordance with the agreed plan.

The planned auction of the 700MHz spectrum is still expected in January 2021. Subject to the notice period being triggered and avoiding interference, Arqiva will have the right to remain in the spectrum with its DVB-T2 multiplex until June 2022.

Digital Platforms channel utilisation

Arqiva's main (DVB-T) multiplexes remain highly utilised with 90% of capacity sold as at 30 September 2020. Since the last period, Sky Arts launched a channel on one of the main DTT multiplexes which became the fourth 24hr slot from Sky as part of a multi-channel renewal. This extends their services on Freeview to 2026 indicating strong interest in the DTT platform.

TV viewing on the DTT/Freeview platform has remained strong during the current pandemic 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. There have recently also been positive signs of media markets recovering more quickly than expected following a downturn early this year from the pandemic.

Radio

COVID 19 continues to impact commercial radio but with some customers reporting a partial improvement in national advertising revenues during the quarter.

Despite the pandemic, customers continued to launch new stations on DAB digital radio. Capital Dance was a new addition to the first national multiplex, Digital One (wholly owned by Arqiva). The second national multiplex, Sound Digital (a joint venture between Arqiva 40%, Bauer 30% and Wireless Group 30%), is also at 100% occupancy. In addition to the national tier, Arqiva holds licences for DAB in more than 20 local areas. New stations have launched on several of these DAB multiplexes during this quarter including Serenade Radio in the Bournemouth area, Actual Radio in Essex and Gorgeous FM across Wolverhampton and Shropshire.

The Department of Culture and Media and Sport has announced plans to consult on legislative changes affecting digital radio. This is expected to consider whether DAB multiplex licence durations should be

extended. The Minister for Media and Data, John Whittingdale, said the consultation will help provide “long-term certainty to support the future growth of digital radio”.

M2M

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 which was less than one month from contract signature. The meter roll-out has now ramped up to over 700 per day and as at 30 September 2020, we were providing service to over 50,000 installed meters under our network.

Lastly, in October 2020, Arqiva and its key supplier Sensus were also awarded the annual top Anglian Water Supplier Award ‘Performance in Exceptional Times’. This is a testament to the Group’s commitment for providing high customer service and being a leading provider of M2M solutions in the UK.

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 2020, there were over 490,000 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 has 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 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 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.

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 November 2020. The customer, 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 5 million SMETS2 meters on the national network.

Capital Expenditure

During the three months ended 30 September 2020 the Group incurred the following capital expenditure:

£m	3 months ended 30 September		Change
	2020	2019	
Growth Capex - contracted	10.9	20.6	(9.7)
Growth Capex – non contracted	0.4	0.5	(0.1)
Maintenance	9.1	9.2	(0.1)
Total Capex	20.4	30.3	(9.9)

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 2020 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 with spend not repeated at the same level as last year as the contract delivery continues to proceed.

Non contracted growth capex at £0.4m has remained consistent with the prior year period.

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

Financing

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

Ratios

We confirm that in respect of the investor report dated 21 September, 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:

- a) Historic Net Debt to EBITDA for the relevant Test Period ending on (and including) 30 June 2020 was 4.17;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2020 was 2.98;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2020 was 1.93 (together with (a) and (b) above, the **Historic Ratios**);
- d) Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 30 June 2020 is 2.58;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June 2020 is 4.66; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June 2020 is 2.80 (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