

INVESTOR REPORT FOR ARQIVA GROUP
PARENT LIMITED

SCHEDULE 7

Twelve month period ending 30 June 2022

Date: 3 October 2022

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 Media Distribution 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 Group had a contracted orderbook of £3.3bn as at 30 June 2022.

Recent developments

Media Distribution

DTT Multiplexes

During the year Arqiva's DTT mux licences were extended to 2034, securing a stable future for the platform, and the interim COM7 closed at the end of the trading year as planned. The closure of COM7 has created opportunity as channels move to the national COM5 and 6 multiplexes included in the sales pipeline for FY23 as we target full platform capacity utilisation.

The year saw some challenges for Digital Platforms, with sanctions leading to the early cessation and non-renewal of the RT channel and Ideal Shopping (IS) being liquidated by its private equity owners. However, platform utilisation has reached full capacity at 100%, with a new agreement negotiated with Ideal World, who bought the IS assets, new contracts signed with UKTV for Drama +1, That's TV and launch of a new channel EarthX. Renewals were also agreed with Narrative, PBS and Gems.

Radio

The DCMS has passed legislation to renew two National commercial DAB multiplexes; Digital One (Arqiva 100% ownership) and Sound Digital (Arqiva has 40% ownership) to December 2035. This underpins the growing importance of DAB radio and secures a stable future for the platform over the next decade and beyond.

Arqiva completed a successful auction in the last quarter on the SDL national commercial radio multiplex securing service providers for the last remaining channels on the multiplex.

Analogue re-engineering programs continue and various smaller projects have been signed off in the past quarter for a number of purposes, distribution changes, small scale DAB network access offers, site moves and more. The indication from government and the market is that FM services will continue into the 30's, therefore there is still movement on the platform and legacy equipment continues to be replaced as we move through renewals.

Direct to Home (DTH)

A key renewal with Narrative (formerly Sony Pictures Television) was secured for over 80% of a single transponder during the last quarter of the year, protecting future revenues. In June 2022, as planned, Arqiva returned a transponder to Eutelsat to optimise its satellite real estate and better manage the cost of supply vs market demand representing material cost savings over the next few years. There continues to be a good pipeline for new channel launches from the international sector with a number in negotiation for launch in the coming months.

Government (DCMS) updates

In June 2022, Arqiva launched the 'Broadcast 2040+' campaign alongside a coalition of partners including Age UK, Silver Voices, the Rural Services Network, and the Voice of the Listener & Viewer to secure a long-term commitment from Government to the future of broadcast services. The campaign provides a channel to

collaborate with partners on upcoming policy developments. The campaign is backed with consumer research from Ipsos into the views of Great Britain on the importance of broadcast services which highlighted the value placed on DTT and broadcast radio services, with 90% of people wanting to see continued support for these services.

The Government confirmed that it would pursue the privatisation and sale of Channel 4. Arqiva provides a range of services to Channel 4 including: transmission through the DTT multiplex licence holder D34 (which is 50% owned by Channel 4); DTH satellite services; and as carriage provider for some of its channels on the Arqiva DTT multiplexes. The long-term contract with D34, that runs into the 2030s, combined with Channel 4's continued reliance of the DTT platform for viewers and advertising income, means that we do not expect Channel 4's sale to have any immediate implications for Arqiva should the Government pursue this action.

The Government had also announced its intention to review the licence fee funding model for the BBC. The Committee has since released its report, which highlighted the ongoing relevance of DTT over at least the next decade. The Committee did not propose a specific funding model but ruled out the BBC being funded solely through a subscription model and highlighted alternatives that would be less regressive than the current flat fee licence approach paid by all households.

700MHz Clearance

The main substantive works on the 700MHz Clearance project completed in August 2020. Final project completion activities have continued until October 2021 with principal site works remaining being the removal of the temporary mast at Emley Moor.

Smart Utilities Networks

Anglian Water

Following the award of the Anglian Water contract in June 2020, the Group rolled out over 367,000 meters by 30 June 2022 out of the overall 789,000 targeted by 2025 across 24 planning zones including Norwich, Lincoln, Northampton and Peterborough, among others. Arqiva continues to rollout the network for Anglian Water albeit the pace has slowed due to global supply chain constraints which is restricting the number of meters available.

Thames Water

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and as at 30 June 2022, over 780,000 meters have been installed, with in excess of 18 million meter readings being delivered per day. It is the largest smart water metering network in the UK and has high coverage across the Thames Water London region. Arqiva continues to add a number of network sites outside London, which included recently Chiddingfold and Guildford, with Dartford currently in design for delivery later this year. In December 2021, the contract was extended for further 10 years to 2031. Arqiva continues to rollout the network for Thames Water albeit the pace has slowed due to global supply chain constraints.

Despite Thames Water initial intent to conduct a full procurement for Thames Valley they have now asked us to proceed with 11 site installations to enable a deployment of approx. 25,000 meters this year and around 108,000 by 2025. This places us in a strong position for the remainder of the Thames Valley rollout

Northumbrian Water

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. This initial contract of 5 years and 11k meters has now been extended to cover over 28k meters and for 15 years of service with 2 new sites. The trial will be followed with a formal procurement process later this year for c. 270k meters to allow Northumbrian to meet their commitments in the current regulatory period.

UK Power Networks

Arqiva has commenced the BGAN rollout for the UK Power Networks for its network monitoring with over 650 units delivered by June out of the total orders of 5,000. Further orders are expected later this year.

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 extending and expanding the trial for a further 12 months and 1,900 meters, 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. Orders have been received for the trial extension and meters have now been deployed.

We have recently agreed an approach for a new trial with a southern based water company to assist in evaluating the data produced by our smart metering solution and identifying the resulting operational and financial benefits. This will take the form of a small deployment of circa 400 meters.

Arqiva is also participating in an RFI launched by Southern Water in January for 1.2m meters. We expect the next phase to launch in the autumn of 2022.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland continues to cover 99.5% of premises. There are currently over 2 million communications hubs operating on the network representing 20% of the total UK communication hub installations. Whilst there has been an impact to communications hub deliveries, owing to global component shortages, energy companies do have a level of pre-existing stock and Arqiva continues to work with Smart DCC Ltd (DCC) to mitigate the supply risk. The DCC continues to submit change requests that reflect new industry requirements and Arqiva maintains a strong pipeline. Arqiva's relationship with DCC remains strong and has been formally rated by DCC as "green" over the past two months.

Adverse energy trading conditions have resulted in a number of energy companies ceasing business with their customers and obligations being taken up by other suppliers under a pre-existing process operated by Ofgem for such eventualities. Arqiva currently envisages no impact to the smart meter rollout programme now governed by rollout obligations set by Ofgem.

New proof of concepts

Arqiva has engaged with utility customers and industry suppliers as it seeks to expand its presence in the smart utilities industry. The Hybrid Connectivity Proof of Concept (PoC) with SGN has completed following which they have launched their 'Strategic Connectivity' procurement exercise to which Arqiva will formally respond in the coming weeks.

Our Leakage as a Service PoC has been well received and we are now engaged in a programme of work with Thames Water to train and verify their Artificial Intelligence model. Northumbrian Water have shown further interest and requested a proposal from Arqiva for an Analytics Prototype Deployment to augment their current capability. There are two further water companies that have agreed an initial evaluation period. Finally, our Sewer Level Monitoring PoC trial has commenced with Anglian Water with 9 sites deployed and initial feedback citing that performance has far exceeded anything previously seen.

Corporate Update

New CEO

On 10 May 2022, Arqiva announced that Shuja Khan would replace Paul Donovan as a Chief Executive Officer from 1 June 2022. Shuja was appointed as Chief Commercial Officer at Arqiva in January 2020 and has been central to the creation of our strategy, Vision 2031, and the development of the current operating model, as well as evolving and strengthening relationships with our key customers.

Shuja brings more than 20 years of leadership experience in the technology, media and communication sector and his industry background and demonstrable management and leadership strength will be invaluable for the next phase of Arqiva's evolution as we concentrate our focus on ensuring Arqiva is a long-

term sustainable business providing the best possible partnership to our customers as well as on simplifying our business.

Paul Donovan was appointed to the Board as Non-Executive Director on 1 July 2022.

Management changes

In order to take the business forward, three new Executive Committee roles have been created to help the business focus on growth and simplification. Vivian Leinster has moved from her existing role as Chief People Officer to become Chief Simplification Officer, while Peter Baker and Chris Alner were appointed as interim Executive Directors for Smart Utilities Networks and Media & Broadcast respectively. A new Chief People Officer will be appointed shortly to replace Vivian Leinster.

Bilsdale tower fire

Following the fire at our Bilsdale mast site in August 2021, our efforts have been focused on restoring coverage as quickly as possible, as well as to offer advice and practical support for our most vulnerable viewers through providing access to a call centre. Arqiva has now been able to restore Freeview TV services to around 99% of impacted households.

Construction of the permanent replacement tower is well under way. It normally takes around two years to complete such a substantial construction, but we are targeting Spring of 2023.

Arqiva has been informed that its insurers have now concluded their investigations. Precise findings have not been shared and Arqiva is unable to comment in detail on these findings while the claims process is ongoing. Arqiva intends to provide a further update as soon as it is permitted to do so.

Sale of telecoms business

Following the sale of the Telecoms business to Cellnex in July 2020, Arqiva has been supporting Cellnex's UK business via Transitional Services Agreements (TSA) and as planned all TSAs have now completed by the end of 2021, moving into a business as usual relationship under the existing site share arrangements.

Transformation programme update

Throughout the year the Transformation Programme has delivered releases planned, providing the business with industry-leading applications and integration across our Site Management Platform (Siterra), Service Management (ServiceNow), and Financial Management (Oracle ERP) platforms. The programme is final stages and is expected to complete this autumn. This concluding release brings the entire broadcast operations onto the transformed platforms, completes all of the integrations across our core systems and opens up new digital ways to engage with our customers.

Capital expenditure

During the year ended 30 June 2022 the Group incurred the following capital expenditure:

£m	Year ended 30 June		Change
	2022	2021	
Growth Capex - contracted	31.1	43.1	(12.0)
Growth Capex – non contracted	0.4	1.4	(1.0)
Maintenance	40.7	42.6	(1.9)
Project Restore – Bilsdale	14.4	-	14.4
Total Capex	86.6	87.1	(0.5)
Capital creditors/accruals	2.1	(1.0)	3.1
Net cash capital expenditure	88.7	86.1	2.6

Contracted growth capex primarily relates to the Group's major projects including the continued rollout and enhancement of our smart energy and water metering networks as well as TV and radio engineering projects. The decrease in expenditure in the twelve month period to 30 June compared to the prior period is primarily due to the planned reduction in 700MHz Clearance programme activity following the completion of major works in the prior year period as well as an IT refresh project for the smart utilities and one-off radio re-engineering projects in the prior period not repeated. These reductions have been partially offset by an increase in water metering site build expenditure as contract rollout progresses.

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

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT as well as transformation programme costs. Expenditure has decreased due to the reduction in transformation expenditure following programme peak activity in the prior year period partially offset by increases in network portfolio maintenance.

A further £14.4m of capital expenditure has also been incurred in the year in relation to capital works on the Bilsdale transmitter site including the erection of temporary masts, relay works and site improvements following the fire in August 2021.

Financing

During the year, S&P upgraded Group's senior debt rating to BBB+ reflecting the revised business plan as well as the significant deleveraging from the sale of the telecoms business proceeds; it continues to be rated BBB by Fitch. Junior debt remains rated B-/B1 (Fitch/Moody's) with it being withdrawn shortly after the existing junior notes are repaid on 30 September 2022.

Junior debt refinancing

Arqiva secured a 5.5 year £450m term loan facility at the junior lending platform. Proceeds of the loan, together with cash held on the balance sheet will be used to redeem the existing 6.75% coupon junior notes due in September 2023 on 30 September 2022 at par. This marks a further reduction in Group's leverage and demonstrates a commitment to maintain a sustainable capital structure. Alongside the term facility, the Group has also entered a £50m working capital facility providing additional liquidity support.

Ratios

We confirm that in respect of the investor report dated 3 October 2022, 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 2022 was 2.93;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2022 was 5.76;

- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2022 was 2.76 (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 2022 is 2.92;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June 2022 is 5.25; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June 2022 is 2.86 (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,



CFO

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower