

INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED

SCHEDULE 7

Twelve-month period ending 30 June 2023

Date: 21 September 2023

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 £3.2bn as at 30 June 2023.

Recent developments

Media Distribution

DTT Multiplexes

The platform remained fully utilised at year end, with contract for the channel Great! Romance which replaced a channel QVC Style which moved multiplexes to our competitor SDN. While we continue to see high levels of utilisation of our multiplexes, current macro-economic factors are impacting some customers with whom we maintain regular contact. Ideal World entered administration at the year end and ceased transmission, we remain in active dialogue with the administrators and potential bidders to secure a new contract.

Radio

The DAB platform remains the dominant listening platform delivering 40% of all listening hours. National DAB across D1 and SDL remain fully utilised. The local muxes remain around 83% on average, Arqiva are currently putting in place long term renewals for key customers. At the same time, we continue to onboard new services to various muxes, the latest being Amber radio.

The industry continues to move towards AM switch-off diverting investment to either DAB or FM. FM revenues remain strong with long term contracts in place and investment in the FM platform continues with Arqiva finishing some re-engineering projects for both Bauer and Global in the final quarter of the year.

Direct to Home (DTH)

Earlier this year Arqiva signed a multi-year deal with a UK Public Service Broadcaster ('PSB'), representing the first DTH deal (including satellite capacity) that has been signed with a PSB, demonstrating Arqiva's strategy of increasing its market share in the UK TV broadcast market. The services are scheduled to launch in FY24.

During the quarter, two DAZN HD channels launched in April 2023 and India Today was a new SD channel to market. Arqiva has successfully secured all 5 HD channels that launched into market within FY23, bringing the platform close to full utilisation.

Media Management Products

Arqplex, (the Group's first customer cloud multiplexing deployment) is in build, supporting 5 disaster recovery systems for ITV. The automation and orchestration services at the heart of this solution were demonstrated at NAB in Las Vegas with very positive feedback from international broadcasters and platform operators. A second customer deployment, Paramount has been agreed and will be live in the next 12 months and should lead to more systems for the same customer.

Arqade, (Arqiva's cloud-based television content exchange product) launched earlier in 2022. Arqade enables media companies to interchange their content with multiple platforms efficiently across the world through cloud technology. During the quarter, Arqade has been continuing to gain traction in the market including notable success with NBCUniversal delivering channels into New Zealand and Australia.

Government (DCMS) updates

In June 2022, the 'Broadcast 2040+' campaign was launched by a coalition of organisations including Arqiva, with the aim of securing a long-term commitment from the Government to the future of broadcast services. The campaign provides a channel for supporting organisations to collaborate on policy developments

and has attracted media coverage and engagement from members of parliament. In May 2023, the Broadcast 2040+ campaign expanded to include 30 organisations including charities, membership organisations, and broadcasters.

The Government has reiterated its view that millions of households rely on DTT and it expects this to continue over the next decade. The Government has also stated its preference for “no change” to the allocation of broadcast spectrum ahead of the next World Radiocommunication Conference in November 2023, where nations come together to agree how spectrum is allocated to different technologies and services.

The Government released a draft Media Bill in March 2023, which is undergoing pre-legislative scrutiny. The draft Bill includes provisions intended to simplify the remit for public service broadcasters, provide flexibility across the platforms public service broadcasters can use to fulfil public service remit and certain content quota requirements, provide prominence for public service broadcasters on connected devices, introduce stricter regulatory requirements for video-on-demand platforms, reduce regulatory burdens from commercial radio stations, and protect radio’s position on voice-activated smart speakers. The pre-legislative scrutiny process for the draft Bill is ongoing.

Smart Utilities Networks

Regulatory Environment

The water sector regulator Ofwat has finalised its price review 2024 methodology, which sets out expectations for water companies 2025-2030 business plans. Ofwat outlined that it expects companies to embrace opportunities to improve performance through smart technology, that the regulator will support investment in smart metering and that smart metering is likely to be a part of “least regret” best value programmes to reduce leakage. Ofwat further outlined that companies should consider smart meters that provide near real time data as the standard meter installation type. In June 2023, Ofwat announced its decision to allow an acceleration in the delivery of seven smart metering schemes earmarked for 2025-2030 and equating to 462,000 smart meters, enabling these programmes to be delivered between 2023-2025. Ofwat’s final determinations for the next regulated price period will be delivered in December 2024.

Government has indicated support for smart metering, outlining in its Environmental Improvement Plan 2023 that it was exploring policy options to increase smart metering through accelerated investment through to 2030. In addition, the Environment Agency asked water companies to rollout smart meters more quickly and outlined its expectations that companies install smart meters from 2025 and replace manual read meters in its review of draft regional and water resources management plans.

Arqiva has taken an active part in consultation processes informing water companies final business plans for 2025-2030, highlighting the benefits of accelerated investment in smart metering. This includes contributing to consultations on the price review 2024 methodology, Ofwat’s proposals to accelerate smart metering programmes, and draft water resource management plans. Arqiva will continue to engage with policymakers in the lead up to Ofwat’s final determinations on water company business plans for the next regulated price period.

Anglian Water

Since the award of the Anglian Water contract in June 2020, the Group has deployed over 630,000 meters. Anglian have recently awarded two additional regions to us targeting an overall deployment of 1.1m meters by the end 2025. The pace of network rollout continues to accelerate with a joint plan to complete all sites before the end of AMP7. A further 60k devices are to be awarded and we expect that to be via a mini competition starting in September. Device deliveries continue at a rate of 40k per month.

Thames Water

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and as at 31 August 2023, over 930,000 meters have been installed. 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, with 2 more new sites ordered for delivery this calendar year in the Thames Valley region.

Thames have launched a procurement exercise to both satisfy the needs of their Green Economic Recovery award and their initial AMP8 requirements. This is predicated on the use of NB-IoT technology. We have

proposed our solution which leverages the existing managed service and includes Sensus based NB-IoT meter solutions and expect the outcome in December of this year.

UK Power Networks

Arqiva has continued the BGAN rollout for the UK Power Networks for its network monitoring with over 1,900 units delivered by the end of March out of the total orders of 5,000.

SGN Hybrid Connectivity

Following a successful bid for the Strategic Connectivity competitive procurement exercise, Arqiva has been awarded the preferred supplier status for all three lots and will be working with SGN to conclude the contract in October.

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. The trials have 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, 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. This includes our Customer Side Leakage detection tool recently developed. Due to issues with their alternate provider, we have experienced delays with our continued rollout, these are now resolved.

A contract was signed with SES Water to assist in evaluating the data produced by our smart metering solution and identifying the resulting operational and financial benefits. This has now been expanded from c. 400 meters to over 1,000 meters and includes both Customer Side Leakage Detection and Customer Engagement tools.

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. Our customer side Leakage Detection PoC has been well received, we have several further developments and customers involved as this PoC evolves. Our Sewer Level Monitoring trial has continued with Anglian Water with 9 sites deployed and with positive initial feedback. In addition, we have showcased a potential customer engagement application to a number of water customers that has received very positive feedback

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 2.6 million communications hubs operating on the network representing circa 25% of the total UK communication hub installations. Our Comms Hub Supply chain remains stable and we continue to reduce the outstanding backlog each month working closely with our suppliers and the DCC in support of the programme rollout. The recent volatility in global energy markets combined with domestic initiatives to address the increasing need for a more flexible energy system, creates the need for considerable change and places new additional demand on our solution. We have built a strong pipeline of change requests submitted by the DCC to meet these needs, including an expansion in capacity to support the additional traffic now forecasted to occur.

Corporate Update

Bilsdale Mast Fire

Following the switch on of standard definition television services on 22 May 2023, high-definition services went live from the new, permanent 300m mast on Sunday 04 June 2023. The new mast at Bilsdale has now restored the core Freeview channels to the region, on the same frequencies and to the same signal area as the old mast. Arqiva maintained its Project Restore Help Scheme for a period from the launch of the new mast to support viewers who might need help in restoring services. Since October 2021 the scheme received over 26,000 phone calls, arranged more than 8,000 engineer visits and supported nearly 300,000 visits to a dedicated website, Bilsdalemast.co.uk. The Project Restore Help Scheme closed in late July 2023 as any new issues experienced are very unlikely to be related to the fire.

Work continues to install additional antenna equipment to restore radio services provided by the Bilsdale mast.

The Group has submitted a claim to its insurance provider in respect of its liability to such penalties and costs and expects that the insurance proceeds will be sufficient to cover some but not all of the liability and costs. £25m was received in interim payments for this claim during the financial year. A final total settlement of £42m was agreed and received since the reporting date. To date the Group has incurred £31.2m in capital expenditure for the rebuild of the mast and incurred a further £14.3m of exceptional operating expenses in respect of community support activities and restoration costs.

The BBC proceedings against Arqiva in respect of the loss of service as a result of the Bilsdale mast fire is ongoing. The Group has taken legal advice and is defending the claim.

Appointment of Executive Directors

Dom Wedgwood was appointed to the role of Chief Technology Officer in June 2023, following the departure of Clive White once the Transformation Programme had completed. Dom joined from DAZN Group where he was Senior Vice President for Broadcast Technology and OTT Playback Experience. June also saw the announcement of the appointment of Nicola Phillips to the role of Chief Legal Officer, effective 01 July 2023. Nicola joined from Parker-Meggitt, where she was Deputy General Counsel (UK & EMEA) & Director of Legal Operations. Nicola is also appointed as Company Secretary and sits on Arqiva's Executive Committee reporting to CEO Shuja Khan.

Capital expenditure

During the year ended 30 June 2023 the Group incurred the following capital expenditure:

£m	Year ended 30 June		Change
	2023	2022	
Growth Capex – contracted	23.3	31.1	(7.8)
Growth Capex – non contracted	1.1	0.4	0.7
Maintenance	28.2	40.7	(12.5)
Bilsdale – Project Restore	16.8	14.4	2.4
Total Capex	69.4	86.6	(17.2)
Sale of non-current assets	(0.8)	-	(0.8)
Capital creditors/accruals	(3.9)	2.1	(6.0)
Net cash capital expenditure	64.7	88.7	(24.0)

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. The decrease in capital expenditure versus 2022 relates to lower change activity on our Smart Utilities Networks and one-off IT refresh activity in the prior period not repeated as well as the completion of the substantial works of the 700 MHz Clearance program in the previous period. This is partially offset by an increase in Media & Broadcast due to new products and water contract rollouts.

Non contracted growth capex at £1.1m 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 decreased predominantly due to spend on transformation in line with programme progression as well as network portfolio costs incurred on new products in the prior year not repeated.

£16.8m of capital expenditure has also been incurred in the year in relation to capital works on the Bilsdale transmitter site including the rebuild of the permanent mast following the fire in August 2021.

Refinancing

In July the Group has successfully refinanced the £172m and £90m of the EIB and ITL senior debt maturing in January 2024 and June 2024 respectively. The prepayments were financed by the Group issuing the amortising USPP notes of \$118m with the final maturity in June 2031, followed by the 5-year £250m public bond issue.

Simultaneously, the Group has rebalanced its interest rate swaps portfolio to maintain compliance with the hedging covenants. In addition, to manage Group's exposure to inflation, it has entered the inflation collar transaction setting a RPI cap at c6% on the accretion paydowns associated with the index-linked swaps.

Financing

Following the abovementioned refinancing, the Group's senior debt continues to be rated BBB+/BBB by S&P/Fitch.

Ratios

We confirm that in respect of the investor report dated 20 February 2023, 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 2023 was 2.97;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2023 was 5.56;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2023 was 2.92 (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 2023 is 3.14;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June 2023 is 4.14; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June 2023 is 2.52 (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,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

CFO

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower