

# **INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED**

## **SCHEDULE 7**

**Period ending 30 June 2024**

Date: 26 September 2024

## 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 £3.1bn as at 30 June 2024.

### Recent developments

#### Media Distribution

##### **DTT Multiplexes**

The DTT platform remains fully utilised despite challenging trading conditions faced by customers caused by recent volatile economic conditions.

##### **Radio**

Both national DAB multiplexes remain fully occupied with 80% of Digital 1 ("D1") multiplex capacity being contracted to 2035. The second national multiplex also has a large number of contracts secured until its current licence end date of 2028. We continue to see strong interest in national DAB and some large local DAB renewals have been signed.

Whilst the radio advertising market in the past 12 months has been challenging, there are signs that the market is stabilising. Despite this market backdrop, the year saw significant contract renewals with over £200 million of total contract value signed, securing business out to 2035.

A number of our large FM contracts were extended to 2030, with negotiations ongoing on several other FM networks for renewals to 2030 and beyond. We continue to see disposals across the AM platform as AM listening continues to decline; this is consistent with our long-term planning assumptions.

##### **Direct to Home (DTH)**

At the year end, the DTH platform remained close to full capacity following large renewals for up to 5 years, with contracts secured in the final quarter with a global sports broadcaster, one of the major Indian multi channels operators and one of the UK's largest free to air broadcasters. We continue to see interest for further channel launches on the platform.

##### **Media Management Products**

Arqplex, the Group's cloud multiplexing deployment, is in service, supporting 5 disaster recovery systems for ITV. A second customer deployment for another Public Service Broadcaster (PSB) Arqplex system has been deployed and is due to be in service during this year.

Arqade, Arqiva's cloud-based video content exchange product launched in 2022, enabling media companies to interchange their content with multiple platforms efficiently across the world. We currently deliver all of NBC Universal Group's feeds outside the Americas (45 channels) via Arqade.

Arqads, Arqiva's addressable advertising solution, is powering new customer services for Sky AdSmart; development of features to support targeted advertising on Freeview is underway. The Arqads platform hosts a portfolio of channels supporting two major media organisations to monetise their channels more effectively on the Sky Platform.

There remains an exciting growing pipeline of potential customers across all of these products, and we are actively bidding for a number of formal opportunities with UK and international customers. To date we have secured a number of contracts for our new Arq portfolio of products.

## **Government / Regulatory updates**

This year has seen a number of activities by the DCMS that have direct bearing on the Arqiva media business. In December 2023, the previous Secretary of State for Culture, Media and Sport announced that the DCMS will, with support from a panel of experts, lead a review into the sustainability of the BBC's current funding model, with the aim to report to the Secretary of State by Autumn 2024. The review will not impact the current Charter, which extends until 31 December 2027, but will inform the next Charter Review, which is when decisions on the BBC's funding model will be made. Formal public consultation will be launched as part of the Charter Review itself.

On 24 May 2024, the Media Act 2024 received Royal Assent. While various aspects are yet to be implemented, the Act introduced a range of provisions to modernise broadcasting regulation and support public service broadcasters. These include measures to provide public service broadcasters with the flexibility to fulfil their remit across a range of services, provide prominence for public service broadcasters on connected devices, broaden the scope of the listed events regime to apply to public service broadcasters on-demand platforms, reduce regulatory burdens for commercial radio stations, and protect radio's position on voice-activated smart speakers. Arqiva will engage with Ofcom through consultation processes as the regulator progresses with implementing changes brought by the Media Act.

In May 2024, Ofcom published a report on the future of TV distribution, following a request from the Government for an early review of market changes impacting distribution across platforms in its 2022 Broadcasting White Paper. Ofcom's report looks at how the market could evolve over the next 10-15 years and outlined broad approaches for consideration by industry and Government on the future of TV distribution, alongside areas of further work needed to inform policy making. Ofcom outlined the importance of the Government laying out its vision for the long-term future of free TV distribution by October 2025, to provide certainty to audiences and investors. Arqiva are in close dialogue with Ofcom and will engage with both Government and the regulator as this policy debate develops.

The World Radio Conference (WRC) 2023 took place in Dubai in December 2023. The conference determines the allocation of radio spectrum between countries. The conference saw no changes for the use of DTT's spectrum in the UK. DTT's spectrum arrangements will next be reviewed at the WRC 2031 with any review concentrated on the upper part of the spectrum used by DTT rather than the whole band.

Although the UK general election occurred after Arqiva's financial year end, Arqiva was and continues to be actively engaged with ministers in DCMS and other relevant departments as priorities for media and broadcast policy continue to evolve.

## **Smart Utilities Networks**

### **Regulatory Environment**

Ofwat, the regulator of the water and wastewater sectors in England and Wales, released its draft determinations on water company business plans for price review 2024 (the regulated price period between 2025-2030). This indicates that over 10 million smart meters could be rolled out over the period, with total expenditure allowed of about £1.5 billion. Final plans and spend will be determined by Ofwat's final determinations, which Ofwat expects to publish in December 2024.

In October 2023, the National Infrastructure Commission (NIC) released its Second National Infrastructure Assessment, which takes a 30-year view of the UK's infrastructure needs and provides recommendations to the Government on how to meet these needs. The NIC recommended the Government enable water companies to implement compulsory metering and require companies to systematically roll out smart meters. In the NIC's Infrastructure Progress Review, released in May 2024, the NIC reiterated its call for smart water metering and stated that companies and regulators should ensure that smart meters' data recording and data collection is appropriate to secure effective demand reductions. The Government is expected to respond to the NIC's Second National Infrastructure Assessment by the end of October 2024.

Following the 4 July General Election, the new Government announced several measures for the water sector aimed at cutting sewage spills and securing investment in upgrading infrastructure. These measures include securing agreement from Ofwat that funding for infrastructure is ringfenced; water companies making the interests of customers and environment a primary objective in their articles of association; the introduction of new consumer panels to hold water companies to account; and the strengthening of compensation for households and businesses when basic water services are affected.

The Government also announced through the King's speech its intention to introduce a Water (Special Measures) Bill. This Bill would introduce measures to make water company executives criminally liable for breaches of the law, give the water regulator new powers to ban the payment of bonuses if environmental standards are not met, bring forward a new code of conduct for water companies, introduce new powers to bring automatic fines, and require water companies to install real-time monitors at every sewage outlet with data independently scrutinised by water regulators. These developments present an excellent opportunity for Arqiva's connectivity proposition beyond the smart meter across the water sector.

### **Anglian Water**

Since the award of the Anglian Water contract in June 2020, the Group has deployed over 900,000 meters. The pace of network rollout continues to accelerate with a joint plan to complete all sites, supporting 1.1m meters, before the end of the 2020-2025 regulatory period.

### **Thames Water**

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and in January 2024 achieved delivery of over 1m meters. This is the largest smart water metering network in the UK and has high coverage across the Thames Water London region. Arqiva continues to engage with Thames as they develop their plans for both London and the Thames Valley.

### **SGN Hybrid Connectivity**

Arqiva has signed a 5 year contract with SGN to provide connectivity solutions for 230 of their sites with ongoing discussions exploring a further expansion for their network and for solutions with other gas and electricity operators.

### **Other Smart Water Metering Procurements**

Ofwat's draft determination has confirmed the larger than expected opportunity for smart metering. Ofwat is also proposing a regime based upon the data performance of meters delivered rather than just the number of meters installed which is helpful to Arqiva's 'premium' positioning.

### **Beyond the Meter**

Ofwat's draft determination confirms the considerable increase in investment in both wastewater and WINEP (Water Industry National Environmental Programme). This signal increased requirements for various water sensors.

### **Smart energy metering rollout**

The Group's smart metering communication network in the North of England and Scotland continues to cover 99.5% of eligible premises. There are currently over 3.5 million communications hubs operating on the network representing circa 25% of the total UK communication hub installations. Continued volatility in global energy markets combined with domestic initiatives to address the increasing need for a more flexible and data driven energy system, creates the need for considerable change and places new additional demand on our solution.

A strong relationship persists with consistent operational and commercial performance. Delivery of an expansion in capacity to support the additional traffic and network demands now forecasted to occur is progressing to plan with further evolution of the service being evaluated.

The DCC is transitioning to a new regulatory model, where it will operate its core business on a not-for-profit basis in the next licence period, as the company has reached maturity and is operating at scale. These changes will not affect Arqiva's contractual relationship with the DCC.

## **Corporate Update**

### **Defined Benefit Pension Scheme**

Arqiva has historically operated a Defined Benefit Pension Scheme, which was closed to future employees in 2016. Following the scheme closure, the Group has been making material cash deficit recovery contributions to the scheme to address the plan's funding shortfall. A combination of the recovery contributions and favourable changes in the economic environment have resulted in surplus funding positions in the recent years. The scheme has therefore taken an opportunity to complete an insurer backed buy-in transaction covering the whole scheme. The buy-in transaction completed in April 2024. The insurer buy-in de-risks the funding of future liabilities and considerably reduces the Group exposure to future funding contributions.

### **Bilsdale Mast Fire**

The construction of a permanent 300m replacement mast was completed at Bilsdale. Television and radio services went live in May 2023 and January 2024 respectively, re-establishing service coverage for the region. As a result, all broadcast services have now been restored to the main Bilsdale mast. Service credits have been agreed or settled with most customers whose services were disrupted as part of this incident. In addition, the final insurance payment was also received bringing conclusion to part of the business recovery. See page 29 for further information on the financial impacts of the fire.

### **Sustainability**

Arqiva continues to progress with its target to achieve net zero carbon emissions for scope 1 & 2 emissions by 2031, by reducing energy consumption across its broadcasting infrastructure. Other initiatives to help reduce our emissions include scheduling of engineering tasks to reduce miles travelled to site and repeat visits and the optimisation of heating and lighting systems in our main offices. In April 2024, the Group commenced purchase of electricity with renewable energy guarantee of origin certification from April 2024 from our main supplier.

More recently, the Group has completed the EcoVadis ESG survey and was awarded a silver rating putting Arqiva in the top 15% of participating businesses.

### **Management Changes**

Nicola Phillips was appointed to the role of Chief Legal Officer in 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.

Adrian Twynning, Chief of Operations, left the business at the end of the 2024 financial year. In his three years at Arqiva, Adrian brought a focus around operational excellence and delivery, leading on a number of substantial projects. While a formal recruitment process is underway, Mark Steele has been appointed Interim Chief of Operations.

### **Energy Hedging**

Arqiva has historically been protected from extreme volatility in energy prices through long-term forward energy purchases made under an energy supply contract that expired in March 2023. During the year, the Group entered into new forward purchase contracts at prices significantly higher than those in previous years resulting in an increase in energy costs of 77% which has had a material impact on the FY24 results.

### **Britain's Healthiest Workplace**

Arqiva first formally introduced a wellbeing strategy in 2013 and from achieving 9th place in Vitality Health's Britain's healthiest workplace survey in 2015, Arqiva has worked its way up the rankings (3rd in 2017, 5th in 2019 and 2nd in 2022) to finally win the category for large organisation, 1,000+ employees in the 2023 survey (announced Jan 2024). This external recognition not only demonstrates our ongoing commitment to the health and wellbeing of all of our employees but also our desire for continued improvement in this area.

### **Capital Expenditure**

During the twelve-month period ended 30 June 2024 the Group incurred the following capital expenditure:

£m	Twelve months ended 30 June		
	2024	2023	Change
Growth Capex – contracted	24.0	23.3	0.7
Growth Capex – non contracted	10.7	1.1	9.6
Maintenance	29.4	28.2	1.2
Bilsdale – Project Restore	5.9	16.8	(10.9)
<b>Total Capex</b>	<b>70.0</b>	<b>69.4</b>	<b>0.6</b>

Contracted growth capex primarily relates to the Group's major projects including the continued rollout and enhancement of the smart energy and water metering networks and delivery of broadcast services. This is in line with prior year's expenditure.

Non-contracted growth capex has increased from the prior year period primarily due to the scale-up of the Smart Utilities Network side of the business. Alongside increased spend on managed services Media products.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The spend is broadly in line with prior year.

£5.9m of capital expenditure has also been incurred in the year in relation to capital works on the Bilsdale transmitter. This is significantly lower than this time last year as the major works of building a new mast were completed last year. For FY24 the final site restoration activities were completed with final services going live from in January 2024.

### Refinancing

In July 2023 the Group successfully refinanced £172m and £90m of the EIB and ITL senior debt that was due to mature in January 2024 and June 2024 respectively. The prepayments were financed by the Group issuing \$118m amortising USPP notes and £250m 5-year public bond. Simultaneously, the Group rebalanced its interest rate swaps portfolio to maintain compliance with the hedging covenants. Following the refinancing, 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 26 September 2024, 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) 30 June 2024 was 3.06;

Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2024 was 4.17;

Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2024 was 2.49 (together with (a) and (b) above, the **Historic Ratios**);

Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 30 June 2024 is 2.93;

Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June 2024 is 4.29; and

Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June 2024 is 2.48 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 a series of loops and a long horizontal stroke extending to the left.

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CFO

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower