

INVESTOR REPORT FOR ARQIVA GROUP
PARENT LIMITED

SCHEDULE 7

Six month period ending 31 December 2021

Date: 22 February 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 Smart 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 £3.9bn as at 30 June 2021.

Recent developments

Media Distribution

Government (DCMS) updates

In August 2021 the DCMS published the outcome of its consultation on DTT Multiplex licences stipulating that all national DTT multiplexes may be renewed for a further period until 2034, providing Ofcom with the power to renew the licences until this date. The decision and statement demonstrate strong long-term Government support for the DTT platform.

Separately, the Government continues its ongoing strategic review of public service broadcasting, which includes a number of elements. In June 2021 the DCMS outlined plans to consult on the sale of Channel 4 with the consultation closing in September 2021. It also announced plans to review the regulation of video on demand platforms. In July 2021 Ofcom published a set of recommendations to the Government on the future of Public Service Media (PSM) as part of its 'Small Screen: Big Debate' review. Ofcom's report makes clear the ongoing importance of public service media and the importance of continuing to reach the widest possible audience and deliver universality. The Government is now considering these recommendations and plans to publish a white paper sometime in early 2022.

In January 2022 the Culture Secretary announced that the BBC licence fee will remain at £159 per annum until 2024 and then rise in line with inflation for the following four years (until 2028). We have long-term contracts with the BBC which are not impacted by short-term changes in its funding. The government has also announced its intention to review the licence fee funding model for the BBC. We will engage with this process when further information becomes available.

DTT Multiplexes

DTT multiplex channel utilisation has remained high at 97% as at the end of December 2021.

Radio

The DCMS released the outcome of its consultation on National commercial DAB licencing proposing an automatic renewal of both Digital One (Arqiva 100% ownership) and Sound Digital (Arqiva has 40% ownership) to December 2035. This announcement underpins the growing importance of DAB radio and secures a stable future for the platform over the next decade and beyond.

Both national multiplexes remain full and utilisation of local muxes continues to grow with some also reaching full capacity.

The Government published the Radio and Audio Review in October 2021. The review supports the need to protect spectrum for Radio to 2030 and beyond with no full analogue switch-off within this period. Separately, we expect retirement of some AM services within the current plan.

An extension has been agreed on the Absolute MF network with numerous other renewal and extension conversations taking place across the analogue platforms. The general health of the market continues to improve in the absence of lockdowns, we have seen large-scale re-engineering programs ensuring the platform is reliable for the coming years.

Low Earth Orbit Market

Arqiva continues to develop opportunities in the Low Earth Orbit market by establishing connections to multiple satellites, the technology can for example provide satellite broadband anywhere in the world. Key players in this sector are SpaceX, Blue Origin and the recent UK Government investment in OneWeb plus established satellite operators such as Telesat and ViaSat. The Group has now secured two customers at the reporting date.

Smart Utilities Networks

Anglian Water

Following the award of the Anglian Water contract in June 2020, the Group has rolled out 264,000 meters by 31 December 2021 out of the overall 789,000 target by 2025 across 24 planning zones including Norwich, Lincoln, Northampton and Peterborough, among others.

Thames Water

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and as at 31 December, there were over 665,000 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. Recently, Arqiva has installed a network in the Haslemere, Guildford area which is Thames Water's first smart meter deployment outside London. In December 2021, the contract was extended for further 10 years to 2031

Other Water Utilities contracts

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 five-year contract will see Arqiva building and monitoring the fixed-network infrastructure, delivering connectivity to up to 11,000 domestic meters. The network went live in May 2021, along with the meter installation programme, to date around 6,000 meters have been connected. Northumbrian Water will take the learnings from this initial phase for subsequent larger scale deployments in 2022.

Other Smart Water Metering Trials

Arqiva was also awarded a two-year contract by Yorkshire Water to deliver and monitor a smart metering fixed-network trial. This 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. Our network went live and meter installations began in 2020. Yorkshire Water has taken the learnings from this trial and are tendering for larger scale deployments.

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, 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 will be deployed early in 2022.

Water Sector Update

In July 2021, the Final Determinations were announced in respect of the Government special Green Economic Recovery funding programme, OfWat has allowed significant spend for additional Smart Water Metering Programmes to be completed by April 2025. These awards have been made to Thames Water, Severn Trent Water and South West Water.

Arqiva also commissioned and published an independent research from Frontier and Artesia which provided cost-benefit analysis for smart water meter rollout and found that a coordinated rollout of smart water metering would deliver £4.4 billion in benefits to society against costs of £2.5 billion, representing a net benefit of £1.9 billion. These savings come from improved leakage control and network management and Arqiva is well placed to take advantage of these opportunities.

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 over 1 million communications hubs operating on the network representing 20% of the total UK communication hub installations. Whilst there has been an impact to comms hub deliveries owing to global component shortages, energy companies do have a level pre-existing stock and we continue to work with Smart DCC Ltd (DCC) to mitigate risk. The DCC continues to submit change requests that reflect new industry requirements and we maintain a strong pipeline.

Whilst we are seeing a number of energy companies closing, their customers and obligations are being taken up by other suppliers under a pre-existing process operated by Ofgem for such eventualities. We currently envisage no impact to the smart meter rollout programme which is 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 is progressing well and will feed into their anticipated 'Strategic Connectivity' procurement exercise later this year. We have also invested in and are building a demonstration facility at our Chalfont site and expect that to be available in the summer. 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 the Artificial Intelligence model. Sewer Level Monitoring PoC also has strong interest with beta samples expected later this year.

Corporate Update

Bilsdale Tower Fire

On 10 August 2021 a fire broke out at our Bilsdale transmitter site. Arqiva's engineers have worked on a four-stage recovery plan to reinstate services delivered via this site. Through efforts utilising existing and temporary infrastructure, to date around 98% of households have been returned to a coverage area for TV. Arqiva continues to engage with local stakeholders, including viewers, MPs, local government and the media through its Bilsdale Mast: Project Restore programme. The cause of the fire remains under investigation and management are still assessing the financial impact of the incident and continue to engage with the Group's insurers.

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, moving into a business as usual relationship under the existing site share arrangements.

Transformation Programme update

The Transformation Programme has continued in the period with further releases across our Site Management Platform (Sitterra), Service Management (ServiceNow), and Financial Management (Oracle ERP) platforms. In turn, this continues to position Arqiva to be more responsive, agile and efficient through the increased use of data, automation and business intelligence in its existing day-to-day operations delivering for current and future customers. The programme is expected to complete by the end of the financial year.

Capital Expenditure

During the six months ended 31 December 2021 the Group incurred the following capital expenditure:

£m	6 months ended 31 December		Change
	2021	2020	
Growth Capex - contracted	15.0	21.4	(6.4)
Growth Capex – non contracted	0.4	0.7	(0.3)
Maintenance	21.4	17.4	4.0
Project Restore – Bilsdale	3.5	-	3.5
Total Capex	40.3	39.5	0.8
Capital creditors/accruals	1.9	(10.1)	12.0
Net cash capital expenditure	42.2	29.4	12.8

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 six month period to 31 December compared to the prior period is primarily due to decreased 700MHz Clearance programme activity following the completion of major works in the prior year period. A reduction in smart energy metering activity is offset by an increase in water metering site build expenditure.

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 costs. The expenditure has increased from the prior year period due to increases in network portfolio maintenance partially offset by a reduction in transformation expenditure following programme peak activity in the prior period.

A further £3.5m 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 and site improvements following the fire in August 2021.

Financing

In October 2021, 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 B1/B- (Moody's/Fitch).

Ratios

We confirm that in respect of the investor report dated 22 February 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) 31 December 2021 was 3.02;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2021 was 5.67;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2021 was 3.24 (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) 31 December 2021 is 2.72;

- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2021 is 5.68; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2021 is 2.53 (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