

INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED

SCHEDULE 7

Period ending 31 March 2019

Date: 16th May 2019

SCHEDULE 7

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 is the leading independent telecom towers operator and the sole terrestrial broadcast network provider in the UK. The Group's core infrastructure business (comprising terrestrial broadcast, digital platforms, wireless site-share, smart metering and satellite infrastructure) generates predictable earnings, supported by strong market positions, diverse revenue streams, long-life assets and long-term inflation linked contracts.

Recent developments

Terrestrial Broadcast and Satellite and Media

As announced in our half year results, the Group is working to consolidate its Terrestrial Broadcast and Satellite and Media business units as part of its strategy to support customers in its core markets and transform our business practices. These plans are progressing well, and the Group remains on track to complete the business unit consolidation by the start of the new financial year.

Additionally, our plans to reduce focus on Playout and traditional Occasional Use satellite distribution and uplinking are progressing well. All playout customers have been informed. We continue to support our Playout customers in the interim period as we run down our activities in this area and expect to exit the business by the end of calendar year 2020. Our traditional Occasional use has now been refocussed to providing managed services for live events focusing on growth areas of content acquisition, contribution and IP & fibre delivery (including IP Streaming and VOD) and will stop providing customer uplinking and distribution of live events via satellite by the start of the new financial year. These relatively subscale areas currently provide minimal contribution to the Group's overall earnings and cashflow.

700 MHz Clearance and DTT spectrum

The 700 MHz Clearance project remains on track. This is the project to clear the 700MHz spectrum band (694 MHz to 790 MHz) of DTT use, so that it can be auctioned by Ofcom and used for mobile data. The overall programme is expected to complete by late 2021 and the Group continues to earn revenues and cash flows as delivery milestones are successfully completed. At 31 March 2019, 49% of Clearance events had been successfully completed. During this quarter, the 50th helicopter lift was completed by Arqiva, continuing the history of using helicopters for UK broadcast antenna installations, first started in 2008 during the UK TV digital switchover project. The removal of the permanent antennae at the Emley Moor site continues on track, while services run from the temporary structure.

Digital radio (DAB)

Since the start of 2019, the Sound Digital multiplex has operated at 100% utilisation following the launch of two Virgin Radio stations. Arqiva's other national multiplex (Digital One) also remains fully utilised. Of the 23 local multiplex licences which the Group owns, strengthening demand for capacity is illustrated by the launch of Greatest Hits Radio, in January 2019. The UK's second biggest radio group, Bauer Media, bought capacity to launch the station across Arqiva's network of local multiplexes.

Telecoms & M2M

Small cells and pilot network

Whilst the UK small cells market remains in its early stages, Arqiva has hundreds of small cells deployed and operational in London and three out of the four UK mobile network operators (MNOs) have deployed small cells on Arqiva managed street assets.

In December 2018, Arqiva and CityFibre announced plans to conduct the UK's largest 5G small cells pilot trial in London Borough of Hammersmith & Fulham which will also involve the creation of a 15km high density fibre network. The Group continues to progress the trial.

Major customer contract

We have a major MNO customer contract maturing in late 2019. Negotiations to define our commercial relationship past this date, are ongoing.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland has been live since November 2016.

The Arqiva network now covers 99.25% of premises and is planned to reach final coverage of 99.5% by summer 2020. DCC are also continuing to submit change requests that reflect new industry requirements planned to be delivered in November 2019 and June 2020. The Group expects change requests to continue beyond the current financial year, but at a reduced volume.

The Group continues to support the preparations of the DCC and their users ahead of the mass roll-out of SMETS2 meters which is expected during late 2019 when latest models of compliant Smart Meters become available to Energy Suppliers.

Smart water metering rollout – Thames Water

Since April 2015, Arqiva has developed a smart metering network that enables the collection, management and transfer of metering data for Thames Water. At 31 March 2019, the network comprised 98 sites out of the 106 required for full network across the entire Thames Water London region, with completion expected during summer 2019. There were over 383,000 meters installed to date and over 7 million meter readings being delivered per day.

Smart water metering trial contracts – Anglian Water

Since June 2016, Arqiva has been operating smart water metering trials for Anglian Water in two of their regions. These trials are part of Anglian Water's strategy for a long-term smart metering programme. As at 31 March 2019, over 17,500 meters were operational under these trials. The delivery of our network has enabled Anglian to realise the significant benefits of improved leakage detection and consumer engagement whilst also informing their forward-looking business plans. It is as a consequence of this that Anglian has recently announced a procurement tender process in readiness for their next five year business plan programme.

Other

Transformation update

The Group's company-wide transformation programme, 'FutureFit', continues to progress. Through this transformation programme, Arqiva continues to streamline and standardise its processes, rationalise and modernise IT systems and achieve significant efficiencies, and improvements to customer service.

Key developments to date include the elimination of excess satellite transponder capacity; a reduction in leased fibre circuit costs; property related cost savings and overhead efficiencies. We are also continuing to invest in new technologies to further secure our infrastructure and improve our ways of working with the deployment of an enhanced digital workplace. The digital workplace will result in improved collaboration, email reduction, mobile and flexible working, and ensuring that our systems remain fit for purpose and resilient over the longer term.

CFO change

Jane Aikman, Chief Financial Officer, has left her role at Arqiva. Sean West, previously our Director of Treasury & Corporate Finance, has been appointed CFO on an interim basis. We thank Jane for her contribution and wish her every success for the future.

Capital Expenditure

During the nine months to 31 March 2019, the Group incurred the following capital expenditure:

£m	9 months ended 31 March		Change
	2019	2018	
Growth Capex – contracted	70.6	104.2	(33.6)
Growth Capex – non contracted	3.2	2.6	0.6
Maintenance	20.8	18.5	2.3
Total Capex	94.6	125.3	(30.7)

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering and the decrease in expenditure during the nine month period to 31 March 2019 compared to the prior year period reflects the phasing of works associated with these projects. 700 MHz Clearance capex peaked in the prior year and is expected to reduce as the project nears completion around 2021. Smart energy metering change requests were lower than the previous period, are directly linked to the scale of DCC and industry change requirements and are therefore are variable in nature.

Non contracted growth capex at £3.2m was broadly consistent with the prior year period.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The increase compared to the prior year period was mainly due to the greater level of routine structural maintenance undertaken given the favourable weather conditions during the summer of 2018 as well as reflecting the progress the Group is making on its transformation programme.

Financing

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B2 (Fitch/Moody's).

Ratios

We confirm that in respect of this investor report dated 16-May 2019, by reference to the financial statements for the 6 month period ending 31 December 2018 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) 31 December 2018 was 4.37;
- Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2018 was 2.84;
- Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2018 was 2.11 (together with (a) and (b) above, the **Historic Ratios**);
- Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 31 December 2018 is 4.52;
- Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2018 is 2.61; and
- Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2018 is 1.79 (together with (d) and (e) above, the **Projected Ratios**).

We confirm that:


- 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;
- 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

