

ARQIVA INVESTOR REPORT FOR JUNIOR NOTES TRUSTEE

SCHEDULE 6

Six month period ending 31 December 2019

Date: 25 February 2020

QUARTERLY INVESTOR REPORT

To: The Note Trustee

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 sole terrestrial broadcast network provider in the UK and the leading independent telecom towers operator, with the latter part going through a sales process as outlined in this report. The Group's core infrastructure business (comprising terrestrial broadcast, digital platforms, satellite infrastructure, machine-to-machine and wireless site-share) 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 £4.5bn as at 30 June 2019.

Recent developments

Sale of Towers business

On 8 October 2019, Arqiva announced that it had reached an agreement to sell its Telecoms division to Cellnex for £2.0bn. The transaction will include c. 7,400 sites and contractual rights to market a further c. 900 sites across the UK.

The transaction is expected to close in mid-2020 (subject to a Competition and Markets Authority (CMA) Phase One clearance), and the Group continues to work towards this, on business separation and the CMA process, for example. The majority of the sales proceeds will be used to repay senior debt and swaps, to further strengthen the capital structure of the remaining business and the Group will engage with the appropriate stakeholders in due course.

The remaining business will consist of the Media Networks business (comprising Terrestrial Broadcast TV and Radio, Digital Platforms and Satellite products) and the Group's Machine-to-Machine (M2M) business.

Media Networks

Consolidation of Terrestrial Broadcast and Satellite and Media

The consolidation of Terrestrial Broadcast and Satellite and Media into the newly formed Media Networks business unit was successfully completed at the start of the financial year.

Reduced focus on Payout and closure of Occasional Use

Following the closure of our traditional Occasional Use satellite distribution business on 30 June 2019, we also continue to progress our plans to exit the payout market by the end of calendar year 2020 and this remains on track. To date, we have run down a major live sports payout contract from our Feltham operation and a second large contract is on track to leave by the end of March 2020. These traditional satellite Occasional Use and Payout businesses were relatively subscale areas providing minimal contribution to the Group's overall earnings and cashflow.

700 MHz Clearance and DTT spectrum

The 700 MHz Clearance project remains on track to complete the last Clearance Event by spring 2020. The scope of the project is 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 which will include final reinstatement of sites. The Group continues to earn revenues and cash flows as delivery milestones are successfully completed. At 31 December 2019, 89% of Clearance events had been successfully completed and 407 relay antennas had been completed out of 416 across the whole country.

Digital Platforms channel utilisation

During the quarter, the Group successfully renewed and upgraded a number of channels within Digital Platforms. The CBS Drama contract was renewed and both Smithsonian and PBS America were upgraded, moving from the interim DVB-T2 multiplexes to the main national DVB-T multiplexes which give them improved reach and coverage.

Arqiva's main (DVB-T) multiplexes remain highly utilised with 96% of capacity sold as at 31 December 2019. The Group continues to review all opportunities and is in discussions with a number of customers regarding the sale of the unutilised capacity.

Digital Platforms DVB-T2 multiplexes

The Group's current interim DVB-T2 multiplex licences will end in June 2020. We are expecting to be issued a new licence that is likely to be on a rolling one month notice period. Discussions are ongoing with Ofcom to secure more DVB-T2 licence assurance for our customers.

Digital radio (DAB)

DAB listening continues with the current figures from industry data provider RAJAR showing that 56.8% of listening is now to digital radio platforms (Q3 2019). Listening to national commercial radio is showing particularly strong growth. Arqiva is marketing capacity for a further national station and expects to complete the contract during this quarter. At that point Sound Digital will be at 100% occupancy. The other national commercial DAB multiplex, Digital One (100% owned by Arqiva) is already at 100%. We continue to market unused capacity on the 23 local DAB multiplexes owned by Arqiva and occupancy has again increased year-on-year.

The Government's review of the UK's transition to digital radio listening continues. Arqiva has been working directly with other stakeholders and the expectation remains that the review will be completed within the next twelve months of the date of this report.

Telecoms & M2M

Small cells and pilot network

Whilst the UK small cells market remains in its early stages, demand continues to grow and Arqiva anticipates new scale orders in the coming months. Arqiva has several hundred small cells deployed and operational across London and three out of the four UK mobile network operators (MNOs) have deployed small cells on Arqiva managed street assets. All of our London concessions now have live services or orders placed against them. The service is equally suitable for 5G as it is for 4G.

In addition to the above the Group's 4G / 5G small cells pilot in the London Borough of Hammersmith & Fulham, which will also involve the creation of a 15km high density fibre network, now has a number of live sites as planned.

Major customer contract renewal

In December 2019, Arqiva successfully renewed a long term contract with a major telecoms customer for a duration of ten years plus option to extend for a further two years at the customer's election.

Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland currently covers 99.4% of premises and is planned to reach final coverage of 99.5% by summer 2020. The customer, the Data Communications Company (DCC), continues to submit change requests that reflect new industry requirements with the next major release planned for March/April. The Group expects change requests to continue during this financial year, but at a reduced volume compared to the previous period.

The Group continues to support the DCC and their users ahead of meter rollout programmes. DCC has noted that as of October 2019 there were 2.5 million SMETS2 meters on the national network and whilst the rollout completion date is likely to be extended from the end of 2020 to the end of 2024, this extension is reflective of the time needed by energy suppliers and their meter installation teams. Arqiva continues to work proactively with DCC, BEIS and other service providers to minimise any effects.

Smart water metering rollout – Thames Water

Since April 2015, Arqiva has delivered a smart metering network that enables the collection, management and transfer of metering data for Thames Water. At 31st December 2019, there were over 455,000 meters installed and with nearly 10 million meter readings being delivered per day, it is the largest smart water metering network in the UK. The network comprised 105 sites out of the 106 required for full network coverage across the entire Thames Water London region with completion expected early 2020.

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 and the delivery of our service has enabled Anglian to realise the significant benefits of improved leakage detection, and consumer engagement, whilst also informing their business plans. As at 31st December 2019, over 17,500 meters were operational under these trials and Anglian Water has seen 358,000 litres less customer leakage per day. In March, Anglian will be concluding a procurement process for a smart network across their supply area, pivotal for the delivery of their next five year business plan and beyond.

Smart water metering regulatory update

The water industry regulator, Ofwat, provided its Final Determinations during December 2019, as part of its regulatory review process. These Determinations, which will form the basis of companies' five year business plans, in general positively acknowledge the benefits of Smart Metering as an effective tool to reduce leakage and per capita consumption. This acknowledgement reinforces Arqiva's strategy and approach of delivering services at scale in this area.

Other

Transformation update

The Group's company-wide transformation programme, 'FutureFit', has now moved into its integrated system design and delivery phase across all areas of change. Through FutureFit, Arqiva continues to standardise and streamline its processes, rationalising and modernising IT systems to achieve significant efficiencies, increased speed to market and improved customer service.

We continue to invest in new technologies to optimise our capabilities, secure our infrastructure and digitise our ways of working with the deployment of an integrated digital and mobile workplace. We have now completed a full Arqiva wide migration to a mobile enabled workforce with digital collaboration tools and capabilities. We are making further investments in our Service and Site Management platforms that underpin our customer and partner relationships, network management and our financial ERP systems as well as a complete overhaul of our data management capability. Planning for the first deployments began in January.

Management update

In January 2020, Arqiva appointed Shuja Khan to a newly created role of Chief Operating Officer (COO). Shuja will be leading the review and implementation of the Group's new operating model that will be required to support the business post the telecoms sale completion. Shuja brings broad experience across both the broadcast and telecoms sectors and has held similar senior roles at Cable and Wireless, Virgin Media and Liberty Global.

Also, in January, Alex Pannell took on shared responsibility for the M2M business in addition to his current responsibilities in Media Networks as Commercial Director. The M2M business will remain with Arqiva following the sale of the Telecoms business and a smooth handover for this important and growing area of our business has commenced.

Capital Expenditure

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

£m	6 months ended 31 December		Change
	2019	2018	
Growth Capex - contracted	34.6	49.9	(15.3)
Growth Capex – non contracted	1.1	2.3	(1.2)
Maintenance Capex	18.9	13.9	5.0
Total Capex	54.6	66.1	(11.5)
Capital creditors/accruals	5.4	11.7	(6.3)
Net cash capital expenditure	60.0	77.8	(17.8)

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering. The decrease in expenditure during the six month period to 31 December 2019 compared to the prior year period primarily reflects the phasing of works associated with the 700 MHz Clearance programme. Decreases have been partially offset by an increase related to the Smart Metering programme mainly due to an IT refresh.

Non contracted growth capex at £1.1m has decreased due to a reduction in capitalised product development.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, as well as with network and IT transformation. The increase compared to the prior year period was mainly due to increased activity in these areas.

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 25 February, 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 2019 was 4.17;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2019 was 3.04;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2019 was 2.09 (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 2019 is 4.57;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2019 is 2.71; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2019 is 1.72 (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 Broadcast Finance plc as Issuer