

ARQIVA INVESTOR REPORT FOR JUNIOR  
NOTES TRUSTEE

**SCHEDULE 6**

**Six month period ending 31 December 2020**

Date: 22 February 2021

## 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's core business comprises of Broadcast 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 sale of the Telecoms business was successfully completed in July 2020. The Group had a contracted orderbook of £3.8bn as at 30 June 2020 for the remaining business after the Telecoms sale.

Recent developments

### Corporate updates

#### **Sale of telecoms business**

The sale of the Telecoms business to Cellnex completed in July 2020. The Group's operational and asset separation relating to the Telecoms sale has largely been completed. Operationally, Arqiva will continue to support Cellnex's UK business via Transitional Services Agreements (TSA) for a period of up to 18 months from the deal completion date.

#### **New organisation structure**

Arqiva is implementing a new integrated organisation structure that will help better serve our customers, their delivery requirements, and the products and services that we provide. This change will:

- Place productivity, innovation and sustainability at the heart of our actions;
- Create a high performance, high engagement culture; and
- Deliver financial outcomes that create value.

#### **Brexit**

Arqiva has been reviewing the impact on its supply chain following the Brexit deal in December 2020. The Group will broadly have no impact as we are predominately UK based with key customers also in the UK.

#### **COVID 19**

Despite the extended lockdown Arqiva continues to provide customers with essential communications infrastructure for our broadcast and utility customers. We have deployed business continuity plans as part of our operational and financial risk mitigation, to ensure the safety of our staff and the ongoing provision of services for our customers.

Measures are in place across a number of areas including:

- Ensuring workplaces and activities conform to the Government's COVID Secure guidelines;
- Using rapid flow antigen tests for our key workers;
- Implementing alternative working arrangements and technology to keep our employees and contractors safe;
- Ensuring that we plan and deliver our activities in line with Government alert levels;
- Ensuring regular communication with critical suppliers, identifying and managing any risks;
- Ensuring disaster recovery plans can be invoked for critical assets and systems;
- Cyber security, where we have reviewed and further strengthened this; and
- Financial liquidity – where we continue to review our available facilities. We had benefitted from the Government's VAT deferral scheme but repaid the full amount during this period.

#### **Transformation update**

Our Digital Transformation has continued uninterrupted by COVID 19. Following the successful launch of our Service Transformation and implementation of our single ServiceNow platform (IT service portal), we continued with our Finance Transformation and the implementation of a new Oracle ERP system in December 2020. Our Site Transformation programme remains on track with the launch of our Siterra platform (site data management) in mid-2021 hosted in our new cloud based data management solution

which was implemented alongside our Service platform last year. Both our Network Modernisation and Digital Workplace programmes continue to deliver to plan.

## **Broadcast**

### **700 MHz Clearance and DTT spectrum**

The Government (DCMS) has recognised the success of the 700 MHz Clearance programme and the fact that it was under budget and ahead of schedule in terms of making the spectrum available for auction. The planned auction of the 700MHz spectrum by Ofcom has been delayed from January 2021 to March 2021 due to COVID 19 impact. Subject to the notice period being triggered, Arqiva will continue to have the right to remain in this spectrum with its DVB-T2 multiplex until June 2022.

Arqiva's project completion activities will continue with a project team until around October 2021, including the removal of the temporary mast at Emley Moor; decommissioning of temporary site works and financial reconciliation of spend with Ofcom. The team size continues to reduce as the project ramps down in accordance with the agreed plan.

### **Freeview – Arqiva steps down as a shareholder in Digital UK**

In December 2020, Digital UK announced that Arqiva will stand down as a shareholder in the Freeview marketing consortium, Digital UK from March 2021. The agreement means that Arqiva will withdraw from its Board involvement in Digital UK, which leads the day-to-day management of the DTT platform as well as the long-term strategy and development of the Freeview service.

For the remaining shareholders (BBC, ITV and C4) this is an opportunity for greater collaboration in how viewers find public service programming in the connected world, whilst remaining committed to working with the wider industry to ensure that Freeview remains a vibrant, competitive and open hybrid TV platform. Whilst no longer a shareholder of Digital UK, Arqiva will maintain its important role in the Freeview platform, both as an independent national multiplex operator - carrying around half of the channels on the Freeview platform - and as the sole transmission provider for the Digital Terrestrial TV (DTT) platform.

### **Digital Platforms channel utilisation**

Arqiva's main (DVB-T) multiplexes saw an increase in utilisation to 94% as at 31 December 2020. Since the last period which saw the launch of Sky Arts on one of our main DTT Multiplexes, GB News UK has been contracted for a 24 hour slot also on one of the main DTT Multiplexes. Arqiva will distribute GB News to all major UK platforms. Our solution will allow GB News to access all major DTT, satellite and cable platforms reaching more than 96% of British television households. The full-service proposition will see Arqiva execute the launch and manage the programme delivery for GB News, allowing the channel to capitalise on flexible content distribution solutions through a seamless combination of traditional fibre and our fully managed 'Virtual Connect' cloud-based products. This deal brings a new channel to the DTT platform, which demonstrates the continued value of Freeview.

TV viewing on the DTT/Freeview platform has remained strong during the current pandemic period as more people stay at home. TV has provided a vital way of keeping people informed, helping with social isolation and entertainment. The wide reach of the DTT platform has been of vital national importance for delivering news and other information to the whole nation and for supporting society during the current pandemic. There have recently also been positive signs of media markets recovering more quickly than expected following the downturn in early 2020. In December 2020 the DCMS issued a consultation on DTT Multiplex licences which is also exploring the longevity of the platform.

## **Radio**

COVID 19 continues to impact commercial radio. There were signs of a promising recovery in national advertising and during November 2020 advertising revenues held up despite the national lockdown. Local advertising, on the other hand did see some impact. Despite positive news about effective vaccines, concern about repeated lockdowns continued to affect confidence and revenues in the overall radio market, particularly local sectors.

The Government praised Arqiva for the financial support given to commercial radio following the first lockdown. During the autumn, we initiated discussions to provide additional help for customers. A follow on financial package has been agreed, which was more narrowly focussed on smaller local stations and was

jointly funded with DCMS. The aim is to help secure the future of UK local radio and provide an additional boost to the radio sector during this challenging period.

Despite the pandemic, customers continued to launch new stations on Arqiva's local DAB digital radio multiplexes across the country. On the Sound Digital national multiplex (a joint venture of Arqiva 40%, Bauer 30% and Wireless Group 30%) Love Sport came off air at the end of December 2020 and a new station, JACK Rock was launched. Digital One (the national multiplex wholly owned by Arqiva) remains at 100% occupancy. In addition, renewals with our major customers Global and Bauer were secured in October 2020.

The Government's Radio and Audio Review continues with Arqiva playing an active role alongside other stakeholders to review the future of radio. Most of the research, data gathering, and analysis has been completed and DCMS are leading the process to identify key themes for the final report which will be published in coming months.

### **Low Earth Orbit Market**

Arqiva has been developing opportunities in the Low Earth Orbit market. This is a new technology that relies on a constellation of thousands of small satellites orbiting the earth. By establishing multiple connections to multiple satellites the technology can for example provide satellite broadband anywhere in the world. Key players are Elon Musk's SpaceX, Jeff Bezos's Blue Origin and the recent UK Government investment in OneWeb plus established satellite operators such as Telesat and ViaSat. This opportunity requires groundstations therefore Arqiva has the capability to serve this market. Arqiva is actively developing opportunities with prospective customers.

### **Utilities**

#### **New proof of concepts**

Arqiva has engaged with industry suppliers and utility companies as it looks to expand its presence in the utilities industry. Building on our established credibility in critical national infrastructure and security we are leveraging our relationships with existing and new utility customers by exploring a number of proofs of concept (PoCs) with them. This includes a trial of "hybrid connectivity" services by utilising our satellite, cellular and private radio solutions. We have signed a trial with SGN recently which will go live in March 2021. The PoCs will give our utility customers the opportunity to improve the management of their operational networks.

#### **Anglian Water**

In June 2020, following a competitive procurement process, Arqiva was selected to deliver a smart metering fixed network for Anglian Water. Designed to enhance Anglian's water management capabilities, Arqiva's contract will support them on their mission to achieve leakage and consumption savings and meet Ofwat's water leakage targets for the next five-year period and beyond. During this initial five-year period, Arqiva will deploy the fixed network infrastructure to support the operation of over three-quarters of a million (789,000 target by 2025) smart water meters across 24 planning zones. Arqiva will then operate this network for a further 15 years. Covering both household and non-household properties, the project will support Anglian Water's target planning zones including Norwich, Lincoln, Northampton and Peterborough, among others.

Anglian successfully commenced their meter rollout on 6 July which was less than one month from contract signature. The meter roll-out has now ramped up to over 700 per day and as at 31 December 2020, we were providing service to over 90,000 installed meters under our network.

#### **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 31 December 2020, there were nearly 500,000 meters installed and well over 11 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. At the beginning of June, Thames announced publicly that round-the-clock data from smart meters across London has helped it find and repair a record number of leaks, hit its regulatory target, and reduce overall leakage from its 20,000 mile network of pipes by 15 per cent in one year. In November 2020 they announced that using the data had helped to prevent over 12 million litres per day leakage since April 2020. Smart meters have helped Thames Water achieve what it described as the water industry's "biggest reduction in leakage this century".

## Yorkshire Water

Arqiva was selected by Yorkshire Water to deliver and monitor a smart metering fixed-network trial as part of its plans to revolutionise its leakage detection programme. This two-year exercise 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. Designed to facilitate real-time monitoring, the collection and presentation of frequent meter reading data provided by the service will allow Yorkshire Water to reduce demand for water by rapidly identifying leaks and helping customers understand their usage. Meter installations began in mid-May 2020 and our network went live at the end of June 2020.

## 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. Over this period, we have again proven the excellent performance of our technology and managed service. We are now in the process of 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.

## Smart energy metering rollout

The Group's smart metering communication network in the North of England and Scotland now covers 99.5% of premises. Arqiva achieved its final contracted coverage milestone (BMax) in December 2020 despite COVID 19 restrictions. The customer, Smart DCC Ltd, (DCC), continues to submit change requests that reflect new industry requirements, 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 reported that there are now c. 6.5 million SMETS2 meters on the national network.

## Capital Expenditure

During the six months ended 31 December 2020 the Group incurred the following capital expenditure:

£m	6 months ended 31 December		
	2020	2019	Change
Growth Capex - contracted	21.4	34.6	(13.2)
Growth Capex – non contracted	0.7	1.1	(0.4)
Maintenance	17.4	18.9	(1.5)
<b>Total Capex</b>	<b>39.5</b>	<b>54.6</b>	<b>(15.1)</b>
Capital creditors/accruals	(10.1)	5.4	(15.5)
<b>Net cash capital expenditure</b>	<b>29.4</b>	<b>60.0</b>	<b>(30.6)</b>

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 2020 compared to the prior year period primarily reflects the phasing of works associated with these contracts. Expenditure on the 700 MHz Clearance programme has decreased as it reaches completion with the last two clearance activities completed in August 2020 despite the coronavirus pandemic. Further decrease is due to an ongoing IT refresh related to the Smart metering programme which continues but with spend not repeated at the same level as last year.

Non contracted growth capex at £0.7m 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 remained consistent as the Group progresses with its transformation programme.

## Financing

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B1 (Fitch/Moody's).

We confirm that:

- (a) no Ratings Downgrade Event has occurred;
- (b) no Default or Senior Trigger Event has occurred and is continuing; and
- (c) the statements set out in this Quarterly Investor Report are accurate in all material respects.

**Current Hedging Position**

We remain in compliance with hedging covenants.

Yours faithfully,



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CFO

Signing without personal liability, for and on behalf of

Arqiva Broadcast Finance plc as Issuer